SUNCORP

Suncorp-Metway Limited and subsidiaries

ABN 66 010 831 722

Directors' Report & Consolidated Financial Report

for the financial year ended 30 June 2019

SUNCORP-METWAY LIMITED AND SUBSIDIARIES
ABN 66 010 831 722

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

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DIRECTORS' REPORT

The directors present their report together with the financial report of the consolidated entity (or **Group**), being Suncorp-Metway Limited (the **Company**) and its subsidiaries, for the financial year ended 30 June 2019 (**2018–19**) and the auditor's report thereon.

Suncorp Group Limited (**SGL**), the Company's ultimate parent entity, is the listed holding company of the Suncorp Group of companies. SGL and its subsidiaries is referred to as the **Suncorp Group** or **Suncorp**.

Terms that are defined appear in bold the first time they are used.

1. Directors' profiles

The names of the people who served as directors of the Company at any time during or since the end of the 2018–19 financial year are set out below. All non-executive directors are members of the Nomination Committee.

Christine McLoughlin

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

Ms McLoughlin has been a director of the Group since February 2015 and Chairman since September 2018. She is Chairman of the Customer and Nomination Committees and an ex-officio member of the Audit, People and Remuneration, and Risk Committees. Ms McLoughlin brings to Suncorp her experience as a director on the boards of ASX Top 50 companies in the financial services, resources, health insurance and infrastructure sectors for the past ten years. Her executive career was in leadership roles in financial services and telecommunications sectors in ASX Top 20 Companies. Ms McLoughlin is a director of listed company nib holdings limited (since March 2011) and Chairman of Venues NSW. She is also a director of McGrath Foundation and Chairman of the Minerva Network. Her previous directorships of listed companies include Whitehaven Coal Limited (May 2012–February 2018) and Spark Infrastructure RE Limited (October 2014–October 2017). She was also inaugural Chairman of the Australian Payments Council. Ms McLoughlin is a member of the Australian Securities & Investments Commission's Non-Executive Director Advisory Panel, a Fellow of the Australian Institute of Company Directors and a member of Chief Executive Women.

Audette Exel AO

BA, LLB (Hons)
Non-executive director

Ms Exel has been a director of the Group since June 2012 and is a member of the Customer and Risk Committees. She brings to Suncorp deep business experience in banking, insurance and reinsurance, investment management and corporate advice, and a strong legal background. Ms Exel gained a deep understanding of business, governance and compliance from her former roles as Managing Director of BSX-listed Bermuda Commercial Bank (1993–1996), Chairman of the Bermuda Stock Exchange (1995–1996) and as a regulator on the board of the Bermuda Monetary Authority (1999–2005). She began her career as a lawyer specialising in international finance. Ms Exel is the founder and Chair of the Adara Group, a pioneering organisation which exists to support people living in poverty, and is the Chief Executive Officer of its corporate advice businesses. She is the recipient of numerous awards, including an honorary Order of Australia for service to humanity.

Sylvia Falzon

MIR (Hons), BBus, FAICD, SFFin
Non-executive director

Ms Falzon has been a director of the Group since September 2018 and is a member of the Customer and People and Remuneration Committees. She brings to Suncorp valuable experience in the areas of business development, marketing and brand management, customer service, risk and compliance, together with remuneration and people strategies. Ms Falzon has held senior positions within the financial services sector having worked for major life insurance and asset management organisations over a 30-year career. Through her executive career and now as a non-executive director, she has gained valuable insights working in large consumer-facing and highly-regulated businesses within the financial services, healthcare, retail and aged care sectors. Ms Falzon is a non-executive director of listed companies Perpetual Limited (since November 2012), Regis Healthcare (since September 2014) and Premier Investments (since March 2018). Ms Falzon is also Chairman of the Governing Board of Cabrini Australia Limited, a diversified not for profit, health and technology service provider. She was a non-executive director of previously listed company SAI Global (October 2013–December 2016).

Ian Hammond

BA (Hons), FCA, FCPA, FAICD
Non-executive director

Mr Hammond has been a director of the Group since October 2018 and is a member of the Audit and Customer Committees. He brings to Suncorp extensive knowledge of the financial services industry, and expertise in financial reporting and risk management. He has deep experience across the insurance, banking, wealth management and property sectors, and a keen interest in digital and technology trends. Mr Hammond is a non-executive director of listed company Perpetual Limited (since March 2015) where his board roles include Chairman of the Audit, Risk and Compliance Committee. He also serves on the board of Venues NSW, as well as several not-for-profits including Mission Australia and Chris O'Brien Lifehouse. Previously Mr Hammond was a non-executive director of Citigroup Pty Limited. Mr Hammond spent more than 35 years at PwC, including 26 years as a partner. He was lead partner for several of Australia's major financial institutions and was previously a member of the Australian Accounting Standards Board and the International Accounting Standards Board.

Sally Herman

BA, GAICD
Non-executive director

Ms Herman has been a director of the Group since October 2015. She is Chairman of the Risk Committee, and a member of the Audit, Customer, and People and Remuneration Committees. She brings to Suncorp strong expertise in running retail banking and insurance products, setting strategy for financial services businesses and working with customers, shareholders, regulators and government. Ms Herman has deep executive experience running customer-facing financial services businesses in the US and Australia. She has held board positions (including on subsidiary boards) of financial services organisations for over 20 years, with a focus on governance, regulation and compliance. Her current listed company directorships include Breville Group Limited (since March 2013), Premier Investments Limited (since December 2011), and Evans Dixon Limited (since May 2018). She is also a director of Investec Property Limited, responsible entity of listed trust Investec Australia Property Fund (since July 2013). At Westpac, Ms Herman oversaw stakeholder engagement including customers, shareholders, government and regulators. She also ran the product function of retail and business banking, including general insurance as well as internet banking, in various roles at Westpac.

Simon Machell

BA (Hons), FCA
Non-executive director

Mr Machell has been a director of the Group since April 2017. He is Chairman of the People and Remuneration Committee and a member of the Audit and Customer Committees. He is a non-executive director of Prudential Corporation Asia, the senior independent director of Pacific Life Re and chairs Pacific Life Re's Australian entity board. As a non-executive director of Tesco Bank and Chairman of Tesco Underwriting in the UK, he has considerable insight into changing customer expectations and engaging customers through digital channels. Mr Machell brings to Suncorp an international perspective on current industry trends in insurance, and insights into the risks and opportunities associated with emerging technologies and new business models. He has deep operational and strategic knowledge of the insurance industry and has planned and delivered significant change programs. In his executive career, Mr Machell spent over 20 years with Norwich Union/Aviva running the finance, service centre and claims functions before becoming CEO of the UK General Insurance business in 2005. Subsequently, he ran its portfolio of international businesses across Asia and Eastern Europe before embarking on a plural career in 2013.

Dr Douglas McTaggart

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

Dr McTaggart has been a director of the Group since April 2012. He is Chairman of the Audit Committee and a member of the Customer and People and Remuneration Committees. He also chairs AA Insurance Limited (a Suncorp joint venture with the New Zealand Automobile Association) and is a director of Suncorp's New Zealand licensed entities. He brings to Suncorp great insight around regulator and government engagement, the economic landscape, organisational efficiency and financial management. Dr McTaggart has an extensive background in financial markets and has deep academic and commercial experience. He is well-versed in operating in a rapidly changing regulatory environment and engaging effectively with regulators and government stakeholders. Dr McTaggart is a former CEO of QIC, Under Treasurer of the Queensland Department of Treasury, and a director of UGL Limited. He is currently Chairman of listed company Spark Infrastructure RE Limited (and a director since December 2015), and SunCentral Maroochydore Pty Ltd. He serves on the Australian National University Council and the Expert Advisory Panel, Indigenous Home Ownership Capital Funding.

Lindsay Tanner

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

Mr Tanner has been a director of the Group since January 2018. He is a member of the Customer and Risk Committees and Chairman of Group subsidiary Suncorp Insurance Ventures Pty Ltd. He is President of Essendon Football Club and a non-executive director of Virgin Australia International Holdings. He brings to Suncorp an acute appreciation of the technological, regulatory and political changes shaping the financial services industry. Mr Tanner has worked at the highest levels of government and business for over 35 years, including as Minister for Finance and Deregulation from 2007–2010, where he played a significant role in regulatory reform in the financial services sector. He also served as Minister for the Future Fund during the Global Financial Crisis. Mr Tanner is a recognised authority on corporate governance and has been a Special Adviser for financial advisory firm Lazard (Australia) for the past nine years, where he has had extensive involvement in the financial sector and with Mergers and Acquisitions. He was also a non-executive director of listed company Covata Limited (January 2017–January 2019) and Lifebroker, the life insurance broking company. Mr Tanner began his professional career as a lawyer representing consumers in disputed personal injury and motor insurance claims.

Former non-executive Chairman

Dr Zygmunt Switkowski AO, former non-executive Chairman, retired from the Board by rotation on 20 September 2018; he had been a non-executive director of the Group since September 2005.

Former executive director

Mr Michael Cameron, who had been a non-executive director of the Company since April 2012, was appointed CEO[1] & Managing Director in October 2015. Mr Cameron's directorship ceased effective 26 May 2019.

2. Directors' meetings

The table below sets out the number of directors' meetings held during 2018–19 (including meetings of the five Board Committees) and the number of meetings attended by each director (or former director) of the Company.

	Suncorp Board of Directors		**Audit Committee**		**Risk Committee**		**People and Remuneration Committee**		**Customer Committee**		**Nomination Committee**	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
C McLoughlin (Chairman)	17	17	3	3	5	5	5	5	3	3	1	1
M Cameron	16	15	4	4	5	5	4	4	2	2	-	-
A Exel AO	17	17	-	-	5	5	-	-	3	3	1	1
S Falzon	12	12	-	-	-	-	4	4	3	2	-	-
I Hammond	11	10	3	3	-	-	-	-	3	2	-	-
S Herman	17	17	5	5	5	5	5	5	3	3	1	1
S Machell	17	16	5	5	-	-	5	5	3	3	1	1
Dr D McTaggart	17	16	5	5	-	-	5	5	3	3	1	1
Dr Z Switkowski AO	6	6	2	2	2	1	1	1	-	-	1	1
L Tanner	17	17	-	-	5	5	-	-	3	3	1	1

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.

As a former executive director until 26 May 2019, Mr Cameron attended the Audit Committee, Customer Committee, Risk Committee, and People and Remuneration Committee meetings at the invitation of those committees. There are no management representatives appointed as members of any Board Committee.

3. Directors' interests as at 30 June 2019

The relevant interest of each current director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by Suncorp Group Limited, as notified by the directors to the Australian Securities Exchange (**ASX**) in accordance with section 205G(1) of the *Corporations Act 2001* (Cth) (**Corporations Act**), as at 30 June 2019, is as follows.

Director	**Number of fully paid ordinary shares**
C McLoughlin	50,000
A Exel AO	18,242
S Falzon	7,600
I Hammond	19,118
S Herman	26,000
S Machell	35,000
Dr D McTaggart	27,922
L Tanner	6,100

[1] CEO – Chief Executive officer

Based on their shareholding as at 30 June 2019, as outlined in the Remuneration Report, all non-executive directors are on track to meet the minimum shareholding requirement.

4. Company Secretaries

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

Mr Darren Solomon was appointed Company Secretary in March 2010 having joined Suncorp in 1989 as a senior lawyer in the legal department before moving to Company Secretariat in 2006.

Ms Kristy Huxtable, who was appointed Company Secretary in August 2016, stepped down from this role on 14 February 2019.

5. Remuneration Report

The Suncorp Group Remuneration Report is set out on pages 17 to 40 and forms part of the 2018–19 Directors' Report.

6. Principal activities

The Company is an Authorised Deposit-taking Institution (**ADI**). The principal activities of the Group during the course of the financial year were the provision of banking and related services to retail, commercial, small and medium enterprises and agribusiness customers in Australia.

The Group conducts the Banking operations of the Suncorp Group. There were no significant changes in the nature of the Group's activities during 2018–19.

6.1 Company's objectives

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

Suncorp has refined its purpose to *create a better today for our customers* which extends to its communities and people. The vision is *to be the destination for moments that matter.* To achieve this Suncorp will build four key strategic capabilities: Brilliant Customer Experience, Digital, Product Innovation and Engaged & Enabled People, to build a more responsible and resilient company. Implementing this strategy demands we strengthen our core business by focusing on our customers, products and brands while building on our strong digital foundations and driving operational excellence.

7. Dividends

A 2018 final dividend of $76 million (28 cents per share) and a 2019 interim dividend of $126 million (46 cents per share) were paid during the financial year. A 2019 final dividend of $164.3 million (61 cents per share) has been determined by the directors.

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

8. Operating and financial review

8.1 Overview of the Group

The Group delivered profit after tax of $355 million (2017–18: $346 million). The result was reflective of challenging operating and economic conditions combined with higher regulatory and compliance costs, offset by a reduction in impairment losses and a net contribution from the Business Improvement Program (**BIP**).

8.2 Review of principal business

Initiatives designed to improve digital banking capability over the last two years, including online origination of accounts and self-service functionality, helped to deliver at-call deposit growth of 10.9%. The launch of near real-time payments was a key milestone in the 2018–19 financial year.

Due to the significant growth in lower cost funding from at-call deposits and reduced funding requirements in the subdued credit growth environment, term deposits were managed lower over the 2018–19 financial year, reducing 10.2%.

The home lending portfolio grew 0.4% over the year, impacted by an increasingly competitive and slowing mortgage market. The business lending portfolio grew 3.6% over the year, reflecting solid growth in commercial lending, partially offset by a reduction in agribusiness lending due to the impacts of various weather events including drought and the northern Queensland floods.

Net interest margin (**NIM**) contracted 5 basis points (**bps**) to 1.79%. Positive impacts from growth in at-call deposits were offset by the elevation of the bank bill swap rate (**BBSW**) for the majority of the 2018–19 financial year and an increase in mortgage discounting to retain customers.

Impairment losses remain low at 2 bps of gross loans and advances, reflecting the sound credit quality of the lending portfolio.

Operating expenses increased 0.4%, reflecting higher regulatory and compliance costs and higher depreciation related to digital capabilities including digital wallets and near real time payments, and the core banking platform, which have been largely offset by BIP benefits.

8.3 Review of financial position

Total assets increased by $550 million or 0.8% to $66,655 million compared with June 2018.

Cash and cash equivalents increased by $132 million to $638 million.

Investment securities decreased by $104 million to $3,954 million reflecting a reduction in government securities and residential mortgage backed securities, offset by an increase in non-government floating rate notes held.

Loans and advances increased by $556 million to $59,154 million driven by a 0.4% increase in home lending and a 3.6% increase in business lending.

Total liabilities increased by $376 million or 0.6% to $62,612 million compared with June 2018.

Deposits and short-term borrowings increased by $508 million to $46,551 million driven by above system 10.9% increase in at-call deposits over the financial year driven by continued digitisation of deposit banking services and further enablement of self-service functionality. The $0 Account Keeping Fee waiver on the Everyday Options Account assisted in the growth of at-call deposits over the second half. Reliance on term deposit funding was actively reduced over the year to $16,401 million, down 10.2%, reflecting the significant growth in at-call deposits and reduced funding requirements following subdued credit growth.

Securitised liabilities decreased by $1,017 million to $3,831 million due to repayments on the underlying securitised mortgages in the existing Apollo Trusts combined with no new securitisation issued during the financial year (last Apollo transaction was established in April 2018).

Debt issues increased by $504 million to $10,358 million due to a $585 million increase in senior unsecured floating rate notes on issue, a $750 million increase in covered bonds on issuance, partially offset by a $831 million reduction in domestic senior unsecured debt.

Total equity increased by $174 million or 4.5% to $4,043 million compared with June 2018.

Capital notes increased by $35 million due to the issuance of an additional $35 million in capital notes to SGL.

8.4 Review of capital structure

Suncorp Group's capital management strategy is to optimise shareholder value by managing the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to protect depositors and funding providers and grow the business, in accordance with risk appetite. The Group is subject to, and complies with, external capital requirements set and monitored by the Australian Prudential Regulation Authority (**APRA**). The Group has complied with external capital requirements which it is subject to during the current and prior financial years.

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

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

For regulatory purposes, capital is classified as follows:

— CET1 comprising accounting equity with adjustments for intangible assets and regulatory reserves

— Tier 1 Capital comprising CET1 plus Additional Tier 1 Capital such as hybrid securities with 'equity-like'
— qualities

— Tier 2 Capital comprising certain securities recognised as Tier 2 Capital, together with specific Bank
— reserves eligible as regulatory capital

— Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

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

The Group's CET1 ratio was 9.25% (2017–18: 9.01%), above its target operating range of 8.5% - 9.0% of Risk Weighted Assets.

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

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

There have been no significant changes in the state of affairs of the Group during 2018–19, other than as disclosed in this Directors' Report and Financial Statements.

10. Events subsequent to reporting date

There has not arisen in the interval between the end of the 2018–19 financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

11. Likely developments

Above system growth in all portfolios, while maintaining a prudent risk appetite, continues to be a priority. Suncorp is committed to growing the SME and agribusiness portfolios, supporting these markets through increased access to credit. The 2019–20 result for the Group will be driven by the following factors:

— Proposed changes in APRA's serviceability assessment guidelines and the reduction in the RBA cash rate are expected to improve momentum in the mortgage market in 2019–20.

- Above system growth in at-call deposits will remain a priority, driven by the continued delivery of enhanced digital banking capabilities. Term deposits will continue to be managed in line with market conditions and business funding requirements.
- The Group will leverage the digital foundations built to date and the success in deposits and transactions to drive transformation:
  - Leveraging the App, New Payments Platform and deposit origination functionality to drive digital banking propositions.
  - Improve customer experience through provision of self service and faster response times.
  - Lowering marginal unit costs to drive efficiency in the face of commoditisation of retail products.
- The Group continues to closely monitor and support agribusiness customers impacted by prevailing drought conditions and is proud to offer a range of financial and non-financial assistance solutions.
- The Group will continue to target a Net Stable Funding Ratio (**NSFR**) comfortably above 105%.
- Cost to income ratio (**CTI**) will be impacted by the ongoing elevated regulatory costs and lower forecast RBA cash rate in the medium term. Regulatory costs are expected to remain elevated in 2019–20, however will deliver improved outcomes for customers and will be partially offset by BIP benefits. Disciplined cost management will continue to be a focus for 2019–20.
- NIM is expected to remain under pressure in the medium term, despite wholesale funding costs starting to ease. Sustained pressure on NIM from price-driven mortgage competition is further intensified by significant political pressure to stimulate the economy through low home loan rates and balancing the interests of savers.
- From 2019–20, the Group will adopt a NIM calculation that is more comparable with peers. The target operating range will be adjusted to 1.85% – 1.95%.
- Impairment losses to gross loans and advances are expected to remain below the bottom end of the 10 to 20 bps through-the-cycle operating range, however are expected to normalise in the medium term in line with the economic cycle. Suncorp's low level of impairments provides opportunities for growth, while remaining within targeted operating parameters.
- APRA's draft prudential standards incorporating Basel III reforms were released in June 2019. Expected impacts cannot be confirmed before APRA release the final standards. Additionally, the interaction between unquestionably strong (**UQS**) levels of capital (to be reached by 1 January 2020) and APRA's proposed standards (effective 1 January 2022) is unclear, however Suncorp is well placed to meet expected UQS requirements.

12. Key internal and external risks

Policies, procedures, limits and other controls are in place at either the Suncorp Group or business/functional level to manage risks and align to the Board's risk appetite. Key strategic risks that may impact Suncorp Group's business strategies or financial prospects include the following:

CUSTOMER EXPECTATIONS, TECHNOLOGY AND COMPETITORS	
Suncorp's ability to continue delivering positive customer value as customer expectations increase (e.g. for a seamless personalised digital experience) and new digital competitors seek to disrupt existing business models.	→ Suncorp's customer strategy and business improvement plan focuses on making it easier, faster and more convenient for customers (including through physical and digital channels). → The focus on regulatory and system investment will help ensure Suncorp delivers to customer expectations and promises. → Suncorp actively monitors strategic risks and responds through various initiatives, incorporating these into the strategy and business planning process.
PRIORITISATION AND EXECUTION OF STRATEGIC INITIATIVES	
Suncorp's ability to allocate and balance the required investment across strategic priorities and successfully deliver projects and initiatives.	→ Suncorp's project portfolio investment has been determined based on a combination of factors, particularly a risk-based view of project demand, organisation capacity to deliver and alignment to the Group's financial objectives. → Suncorp's project management capability, tools and governance and the ongoing focus on project risk management mitigate this risk.
PEOPLE	
Maintaining an engaged workforce with appropriate culture, conduct and capability to execute the strategy.	→ Suncorp is driving various initiatives to connect people with our purpose, deliver the Suncorp experience and build the workforce and workspace of the future.

DATA, TECHNOLOGY AND OPERATIONS	
Suncorp's ability to develop, maintain and protect fit for purpose technology and data capabilities to enable the strategy; and avoid loss, compromise or unavailability of systems and business operations.	→ Suncorp's strategy has a focus on digital enablement, with expanded development of reusable APIs, data and analytics. → Suncorp actively monitors internal systems and cyber security threats, and is continually investing in systems, processes and controls to maintain a secure, stable and resilient technology environment. → Contingency planning and testing is performed in case of disruption to critical systems and business processes.
STAKEHOLDER CONFIDENCE	
Suncorp's ability to maintain the confidence of the community, investors and regulators.	→ Suncorp meets the expectations of our stakeholders by doing the right thing, improving customer experience, delivering operational excellence and leveraging the strength of Suncorp's core business. → Suncorp's ongoing focus on customer, conduct and culture will help maintain confidence, in an environment of deteriorating trust in financial services.
COMPLIANCE (INCLUDING REGULATORY)	
Failure to comply with applicable legal, policy and regulatory requirements and from changes in the legal and regulatory environment.	→ Suncorp has programs in place to ensure the implementation of regulatory change. → Suncorp's Risk Optimisation Program has increased Suncorp's capability to satisfy regulatory expectations by enhancing awareness and standardising management of compliance obligations.
FINANCIAL OBJECTIVES	
Suncorp's ability to achieve its financial objectives, as set out within the business plan.	→ Disciplined portfolio management, operational excellence and investment in core systems and regulatory initiatives will continue to strengthen Suncorp's core business. → Suncorp actively manages its liquidity and funding positions and ensures appropriate contingency arrangements are maintained.
ECONOMIC CONDITIONS	
Financial performance is significantly affected by changes in investment markets and economic conditions both globally and in Australia and New Zealand.	→ Suncorp consistently monitors these risks by examining market conditions and adopts appropriate financial management strategies to help protect the business.
CLIMATE CHANGE AND RESILIENCE	
Physical impacts of climate change, significant weather events and natural hazards that exceed expectations.	→ Suncorp's Climate Change Action Plan forms the basis for maturing the assessment, management and disclosure of climate change risks and opportunities. → Suncorp reduces financial volatility through the effective management of capital and reinsurance.

13. Impacts of legislation and other external requirements

The Group operates within a highly-regulated industry.

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

There continues to be various proposals and changes from global regulatory advisory and standard-setting bodies such as the International Association of Insurance Supervisors, the Basel Committee on Banking Supervision (**BCBS**), the International Organisation of Securities Commissions and the Financial Stability Board which if adopted, or followed, by domestic regulators may increase operational and capital costs or requirements.

Some of the matters that have impacted or could or may impact the Company and its entities include the following:

- the Royal Commission's Final Report into Misconduct in the Banking, Superannuation and Financial Services Industry (**Royal Commission**) and the subsequent announcement by the Australian Government to act upon on all 76 recommendations (see Royal Commission section)
- introduction of the consumer data right **(Consumer Data Right**) which is intended to give Australians greater control over their data, empowering customers to choose to share their data with trusted recipients only for the purposes that they have authorised that will initially apply to the banking sector but will be extended to other industry sectors (see section Open Banking System section)

- the potential increased enforcement activity by the Australian Securities & Investments Commission (**ASIC**) which will focus on ‘deterrence, public denunciation and punishment of wrongdoing by way of litigation and not by the pursuit of negotiated outcomes’
- the passing of the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2018 which amends the Corporations Act to impose design and distribution obligations (**DD Obligations**) in relation to financial products on the issuers, providers and distributors of those products and amends the Corporations Act and the National Consumer Credit Protection Act 2009 (**Credit Act**) to introduce a product intervention power for ASIC to prevent or respond to significant consumer detriment with that power (see section Design and Distribution Obligations)
- the new ‘vigorous’ approach by the Australian Prudential Regulation Authority (**APRA)** to the use of its enforcement powers to prevent and address serious prudential risks, and to hold entities and individuals to account and to achieve sound prudential outcomes
- ASIC’s proposed new standards about how financial firms handle consumer and small business complaints. The proposed standards, which include new mandatory data reporting, are intended to improve the way consumer complaints are dealt with across the financial system and make firms’ complaints handling performance transparent
- the introduction of the Treasury Laws Amendment (AFCA Cooperation) Regulations 2019 designed to impose obligations on members of the Australian Financial Complaints Authority (**AFCA**) to take reasonable steps to cooperate with AFCA to resolve any complaint under the AFCA scheme. The AFCA scheme is a ‘one stop shop’ independent scheme to deal with individual customer complaints or disputes about financial services and products
- the proposed establishment by the Australian Government of a statutory compensation scheme of last resort following a review of external dispute resolution and complaints arrangements in the financial system
- the extension of AFCA’s remit to consider financial complaints dating back to 1 January 2008
- the passing of federal legislation that will increase the current legislative ownership cap for ADIs from 15 to 20 per cent
- the Productivity Commission’s Final Report into increasing competition in the Australian financial system and the Federal Government’s intention to provide significant additional funding to smaller banks and non-bank lenders
- APRA commencing its consultation on revisions to the ADI capital framework to give effect to expectations for 'unquestionably strong' capital ratios and implement the recently finalised Basel III reforms. This stream of work is a multi-year process and likely to involve further rounds of consultation and quantitative impact studies to enable APRA to gauge the impact and better calibrate proposed changes. Given the need for extensive consultation, APRA does not expect to finalise the suite of prudential standards until 2020–21, with the revised prudential standards likely to be in effect from 2022, consistent with the international timetable
- APRA announcing that it has decided that the countercyclical capital buffer for ADIs will remain at zero per cent
- the Australian Banking Association’s amendments to the Banking Code of Practice in response to the recommendations of the Royal Commission‘s Final Report, which outlined the need for changes in protection for small businesses and farmers and a greater focus on customers in remote areas and those with limited English (see Banking Code of Practice Update section)
- the proposed revisions (Revisions) by APRA to its guidance (Prudential Practice Guide APG 223 Residential Mortgage Lending [APG 223]) on the serviceability assessments that ADIs perform on residential mortgage loan applications with the Revisions being:

  - removing the quantitative guidance on the level of the serviceability floor rate, i.e. the reference to a specific 7 per cent floor. APRA will still expect ADIs to determine, and keep under regular review, their own level of floor rate, but ADIs will be able to choose a prudent level based on their own portfolio mix, risk appetite and other circumstances
  - increasing the expected level of the serviceability buffer from at least 2 per cent (most ADIs currently use 2.25 per cent) to 2.5 per cent, to maintain prudence in overall serviceability assessments; and
  - removing the expectation that a prudent ADI would use a buffer 'comfortably above' the proposed 2.5 per cent, to improve clarity of the prudential guidance.
- APRA's and ASIC's consultation on updating responsible lending guidance to improve the lending practice in the Australian financial sector, which includes considering the role of expense benchmarks in the process of verifying a consumer's financial situation
- the Australian Government's proposed amendments to the Credit Act to enhance the consumer protection framework for small amount credit contracts and consumer leases
- ASIC's guidance on proposed credit card lending assessments and ensuring greater consumer protection by determining suitability according to whether the consumer could repay the credit limit within three years
- the Australian Banking Association's proposal to develop new guidelines to support vulnerable customers
- the review into the financial hardship arrangements and how they interact with the consumer credit reporting framework led by the Attorney-General's Department
- the continued implementation of the various Basel III reforms by APRA including the introduction of the Net Stable Funding Ratio and APRA's introduction of measures to strengthen lending standards for ADIs
- APRA's changes to the large exposures prudential framework, which came into effect from 1 January 2019
- APRA's introduction of new prudential measures to reinforce sound residential mortgage lending practices
- APRA's imposition of new capital and maximum requirements in respect of residential mortgage lending
- APRA commencing consultation to clarify and strengthen remuneration requirements to enhance conduct, risk management and accountability.
- the Report on affordable capital for small and medium enterprises growth led by the Australian Small Business and Family Enterprise Ombudsman
- the Australian Government's focus on improving consumer outcomes and competition in the home loan market
- the Australian Government's continued focus on developing legislation to address fintech developments such as crowdfunding.

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

On 4 February 2019 Commissioner Hayne released the final report of the Royal Commission. Commissioner Hayne made 76 recommendations, including that:

- all industry codes be amended to contain enforceable code provisions, a contravention of which will constitute a breach of the law

- the Banking Executive Accountability Regime **(BEAR)** be extended to all APRA-regulated entities, including super trustees and insurers
- mortgage brokers act in the best interests of borrowers
- hawking of super products and insurance products be banned
- ASIC establish an Office of Enforcement responsible for the investigation and enforcement of contraventions of the Corporations and Consumer Credit legislation.

The Australian Treasury has opened consultation on some recommendations including removal of the claims handling exemption and enforceability of code provisions. Suncorp has provided relevant submissions and continues to monitor any developments arising out of the Royal Commission. The Australian Government has already implemented several of the recommendations.

Banking Executive Accountability Regime (BEAR)

The introduction of the BEAR legislation and framework imposes additional duties and behavioural expectations on ADIs and their directors and senior executives. BEAR came into effect on 1 July 2019, and imposes more serious consequences for being in breach of these obligations by giving APRA new and strengthened enforcement powers to impose substantial penalties if those duties are breached.

The Company supports the introduction of this framework and is compliant with the BEAR legislation since the obligations commenced.

Open Banking System

The Consumer Data Right is scheduled to commence in the banking sector (**Open Banking**) on 1 February 2020, with the four major banks to lead the way by testing the performance and reliability of the Open Banking System from 1 July 2019. Remaining banks including the Company will be given 12-month delays on timelines compared to the major banks. The regime is intended to give Australians greater control over their data, empowering customers to choose to share their data with trusted recipients for the purposes they have authorised.

The Company is well placed to implement this framework.

Banking Code of Practice Update

The Australian Banking Association has updated the Banking Code of Practice (**Banking Code**) with key amendments in response to the Royal Commission's recommendations. Additional protections for small businesses and farmers, along with a greater focus on customers in remote areas and those with limited English, are proposed. All Australian Banking Association members, including the Company, have adopted the Banking Code from 1 July 2019.

Design and Distribution Obligations

On 5 April 2019 the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 (**Act**) became law.

This Act requires product issuers to determine a target market for their retail products, with the intent that products are each designed to be able to meet the objectives, financial situation and needs of that market. Issuers and distributors are also required to take reasonable steps to ensure dealing and general financial product advice in respect of those products is consistent with the target market determination.

These new design and distribution obligations apply from 5 April 2021. The Company is currently in the process of preparing for implementation of these changes.

The Act also gives ASIC further enforcement powers and in particular ASIC now has the power to issue an order that a person must not engage in certain conduct (for example issue or distribute a product) or impose conditions on the product where it is satisfied that the product has resulted in or is likely to result in significant detriment to retail clients. ASIC's ability to use these powers commenced on 6 April 2019.

Australian Prudential Regulation Authority Level 3 Framework

APRA previously released a planned framework for the supervision of Level 3 conglomerate groups (the **Level 3 framework**), which applies to both SGL and the Company, and imposes group-wide requirements in relation to governance, exposure management, risk management and capital adequacy.

The prudential standards for the Level 3 framework commenced on 1 July 2017. In respect of the timetable for implementation of the Level 3 framework it is expected the capital requirements will come into effect in early 2021.

Basel III capital and liquidity reforms

APRA has continued to implement the prudential framework applicable to Australian banks under the Basel III capital and liquidity reforms the BCBS established. The revised capital framework seeks to ensure the composition of a bank's capital appropriately targets the risks it faces, including in relation to housing lending.

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

14. Environmental and Responsible Business reporting

Suncorp seeks to innovate and optimise its economic, social and environmental outcomes throughout its business and value chain. The Group believes in conducting business in a way that protects and sustains the environment for current and future generations, and has a responsibility to continue to reduce its environmental impact and be transparent about environmental performance.

Climate change presents strategic and financial risks and opportunities for Suncorp and its communities. Suncorp is committed to reducing its carbon emissions and preparing for the physical impacts of climate change and the transition to a net-zero carbon emissions economy by 2050.

Suncorp is responding to climate-related risks and opportunities through the implementation of its Climate Change Action Plan and Environmental Performance Plan.

The Climate Change Action Plan details Suncorp's actions for managing climate-related risks and opportunities.

The Environmental Performance Plan details actions to proactively reduce Suncorp's environmental footprint, foster innovation and partnerships, engage and educate Suncorp people, and track and openly disclose environmental performance. The Environmental Performance Plan will be refreshed with a broader program of activity for 2019–20, to further decrease emissions and reduce waste. Suncorp continues to modernise ways of working and will integrate sustainability principles to deliver workspaces that are healthy, flexible and minimise the impact on the environment.

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

Implementation of Suncorp's Environmental Performance Plan has resulted in a 6.3% reduction in Scope 1 and Scope 2 greenhouse gas emissions over the past year. Suncorp has also developed a group-wide view of environmental metrics and strategies to reduce waste. The target is a 51% absolute reduction in Scope 1 and Scope 2 greenhouse gas emissions by 2030.[1]

[1] From 2017–18 baseline for Suncorp corporate operations in Australia and New Zealand; prepared using science-based target methodologies.

15. Indemnification and insurance of officers and directors

Under rule 39 of the Constitution for SGL, SGL indemnifies each person who is or has been a director or officer of the Company (each an officer for the purposes of this section). The indemnity relates to liabilities to the fullest extent permitted by law to another party (other than the Company or a related body corporate) that may arise in connection with the performance of their duties to the Company and its subsidiaries, except where the liability arises out of conduct involving a lack of good faith. The Constitution stipulates that SGL will meet the full amount of such liabilities, including costs and expenses incurred in 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.

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

During 2018–19 SGL paid insurance premiums in respect of a directors' and officers' liability insurance contract. The contract insures each person who is or has been a director or officer (as defined in section 9 of the Corporations Act) of the Company against certain liabilities arising in the course of their duties to the Company and its subsidiaries. The directors have not included details of the nature of the liabilities covered or the amount of the total premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

16. Suncorp's 2018–19 Corporate Governance Statement

The Suncorp Board believes high standards of corporate governance are essential for achieving business objectives, sustaining long-term share price performance and creating value for shareholders.

The Board is committed to maintaining a corporate governance framework and a corporate culture that value ethical behaviour and integrity. The Board is responsible for the corporate governance framework which operates under Board-approved policies, charters and practices. The five Board Committees help the Board fulfil its governance role. During 2018–19 Suncorp Group complied with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (3rd edition).

The 2018–19 Corporate Governance Statement (and Appendix 4G) lodged with the ASX, and a range of documents referred to in it, are available at suncorpgroup.com.au/about-us/governance.

17. Non-audit services

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

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

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

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

Details of the amounts paid or due and payable to KPMG and its related practices for non-audit services provided during the 2018–19 financial year (and the 2017–18 financial year) are set out below.

SERVICES OTHER THAN STATUTORY AUDIT

	2019	2018
Audit-related fees (regulatory)		
APRA reporting	329	565
Australian financial services licences	13	13
Other regulatory compliance services	18	18
	360	596
Audit-related fees (non-regulatory)		
Other assurance services	488	496
Other services		
Tax compliance	-	12
	488	508
	848	**1,104**

18. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 41 and forms part of the 2018–19 Directors' Report.

19. Rounding of amounts

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

Message from the Chairman of the Board and the Chairman of the People and Remuneration Committee

Dear Shareholder

The Board is pleased to present the Suncorp Group's Remuneration Report for the financial year ended 30 June 2019 (**2018–19**).

Our Cash Earnings increased 1.5 per cent over the prior year period reflecting very strong results from our New Zealand business offset to an extent by the impact of natural hazard costs in Australia significantly above allowance, a material increase in regulatory project and compliance costs, an increasingly competitive and slowing mortgage market and volatile investment market movements.

Our financial results were also impacted by the sale of our Australian Life Business[1] which resulted in a $910 million non-cash loss arising from the sale. As a result of the sale, Group Net Profit After Tax was $175 million for 2018-19. The Board took the view that Suncorp was not the best long-term owner of this business and the sale will enable our customers to continue to access industry-leading life products from a company whose core business is life insurance, through our long-term alliance with TAL Dai-ichi Life. Shareholders will benefit from the sale by receiving a 39 cents per share ($506 million) capital return. The capital return remains subject to shareholder approval at the Annual General Meeting in September 2019. The proposed capital return follows the payment of an 8 cents per share ($104 million), fully franked special dividend paid from the sale proceeds in May 2019.

The year was also characterised by several major weather events which impacted thousands of customers and displaced communities. Our employees mobilised from across the country to help customers and communities recover. This contributed to achieving above target performance against a number of customer measures.

In considering performance against Financial, Customer, Risk and People measures, below target short-term incentive (**STI**) outcomes were awarded to the former CEO & Managing Director and Senior Leadership Team.

The past year has seen continued change in both community expectations and the regulatory landscape, with APRA[2] recently releasing a proposed prudential standard on remuneration for consultation. This is expected to come into force from 1 July 2021 and we are working through how our remuneration arrangements may need to be adjusted to meet these requirements. Our intention is to introduce a non-financial measure into the long-term incentive (**LTI**) plan for 2020–21 and over the coming 12-months, we will be considering which measure is most appropriate to meet the needs of all of our stakeholders.

The remuneration framework has been reviewed over the year to ensure it remains contemporary, appropriately supports our refreshed purpose to *create a better today for our customers* and keeps pace with the evolving regulatory environment. As a result, the Board has made a number of changes to the remuneration framework for 2019–20:

- Our remuneration objective and principles have been refreshed with a key focus on motivating employees to provide exceptional outcomes for our customers and shareholders and encouraging our employees to always do the right thing.
- After considering the most appropriate internal measure to drive shareholder returns, and after consulting with investors and proxy advisors, cash return on equity has been introduced into the LTI plan. This measure operates alongside relative total shareholder return (TSR) and each measure has a 50 per cent weighting.
- The Group Scorecard which heavily influences the size of the STI pool and individual Senior Leadership Team STI awards, has been rebalanced to better reflect the interests of all stakeholders. There is now an equal split between financial and non-financial measures, with financial measures weighted at 50 per cent, customer measures weighted at 20 per cent, and risk and people measures weighted at 15 per cent each. The STI measures have also been simplified.
- In line with the Sedgwick Review Recommendations[3], and to strengthen individual consequence management, an STI behavioural gateway and modifier has been introduced that is linked to Suncorp's Code of Conduct. This applies to all executives and employees and can lead to an employee's STI being reduced (down to nil) if they do not adhere to the Code of Conduct.
- The Chief Risk Officer's reward package has been restructured to place greater emphasis on fixed remuneration to reduce any actual or perceived conflicts of interest arising from variable remuneration tied to company performance. Given this, the minimum shareholding requirement for this role has been reduced to 75 per cent of fixed remuneration.

1 Australian Life Business incorporates the performance of the Australian Life Insurance and Participating Wealth Business (Suncorp Life and Superannuation Limited).
2 Australian Prudential Regulation Authority.
3 This refers to Stephen Sedgwick's *Retail Banking Remuneration Review* dated 19 April 2017. Mr Sedgwick was appointed by the Australian Bankers' Association to undertake an independent review of product sales commissions and product based payments in retail banking in Australia. The Review was intended to identify options for strengthening the alignment of retail bank incentives, practices and good customer outcomes.

Throughout 2018-19, the Board also expanded the malus criteria and introduced clawback criteria. This applies to all deferred incentives, including LTI awards.

Suncorp-Metway Limited has been compliant with the Banking Executive Accountability Regime **(BEAR)from** 1July 2019 when the obligations commenced. Clear accountability maps and supporting statements have been created to ensure effective execution of core responsibilities by all Accountable Persons. All Accountable Persons also have a BEAR compliant remuneration structure, with the Senior Leadership Team having had such a structure since 1July 2018.

During the year, Suncorp also transitioned all customer-facing retail banking employees from customised incentive plans onto the Corporate Incentive Plan **(CIP).** Under the CIP, STI awards are based on performance against a scorecard of financial and non-financial measures, as well as the demonstration of desired behaviours to drive the right customer outcomes. Financial measures now have a maximum weighting of 33 per cent in line with the Sedgwick Review Recommendations.

The Board is confident that the remuneration arrangements are strategically aligned and reinforce executive accountability, responsible business practices and effective risk management as well as drive a constructive company culture. Feedback from our stakeholders, including the wider community, regulators and shareholders, is actively encouraged and used in the development of our remuneration practices.

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

CHRISTINE MCLOUGHLIN

Chairman of the Board

August 2019

SIMON MACHELL

Chairman of the People and Remuneration Committee 7

Remuneration Report for 2018–19

This report explains Suncorp Group's remuneration structure for key management personnel (KMP) and demonstrates the strong alignment that Suncorp's executive remuneration practices have with performance outcomes, the experience of our customers and employees, community expectations and shareholder returns. KMP are the people who have authority and responsibility for planning, directing and controlling the activities of the Suncorp Group and includes the non-executive directors. The KMP are outlined in the remuneration tables in this report.

For the purposes of this report, 'executive' means the former Chief Executive Officer **(CEO)** & Managing Director and Senior Executives. Senior Executives includes the Acting CEO and Acting Chief Financial Officer **(CFO).** Suncorp's external auditor, KPMG, has audited sections 2-8 of this report against the disclosure requirements of the Corporations Act.

1. Executive remuneration and performance snapshot

1.1 2018-19 executive remuneration strategy and structure

OBJECTIVE

To provide competitive rewards that attract, retain and motivate talented employees to achieve our strategic objectives by providing exceptional outcomes for our customers and shareholders.

PRINCIPLES

Reward simply and fairly	Align to our strategy	Encourage our employees to always do the right thing	Drive ownership and accountability	Embrace risk management

PURPOSE

Fixed remuneration
- Reflects the role scope and individual's skills and experience and is set in the context of market remuneration levels.

Short-term incentives (STI)
- Rewards the achievement of Group, function and individual outcomes over a 12-month period.

Long-term incentives (LTI)
- Rewards the creation of long-term shareholder value.

STRUCTURE

Fixed remuneration
- Consists of base salary, superannuation, and any salary-sacrificed benefits.

Short-term incentives (STI)
- Delivered as a mix of cash (50% for former CEO & Managing Director, 65% for Senior Executives) and share rights (50% for former CEO & Managing Director, and 35% for Senior Executives).
- Half of share rights vest on the first anniversary and half vest on the second anniversary of the date of grant.
- Share rights are subject to malus and clawback criteria.

Long-term incentives (LTI)
- Delivered as performance rights.
- Vests subject to the achievement of a three year performance measure and service condition.
- If performance rights vest, they become vested rights at the end of Year 3, and convert into shares at the end of Year 4.
- Subject to malus and clawback criteria.

2018-19 APPROACH

Fixed remuneration
- Reviewed annually against a peer group consisting of financial services companies in the S&P/ASX 100, excluding real estate investment trusts.

Short-term incentives (STI)
- Former CEO & Managing Director was assessed against the Group Scorecard as well as other relevant factors as considered by the Board.
- Senior Executives are primarily assessed against their individual contribution, and their function's contribution, to the Group Scorecard.
- The Board also applies a judgement and behavioural overlay, including a risk assessment.

Performance measure	Weighting
Adjusted Net Profit After Tax (**Adjusted NPAT**)	40%
Cash Return on Equity (**ROE**)	20%
Key Customer Measures	20%
Group Risk Maturity Measure Risk Management and Compliance Measures	10%
Engagement Lost Time Injury Frequency Rate (**LTIFR**) Talent and People Deveopment Organisational Culture	10%

For futher detail, see section 2.

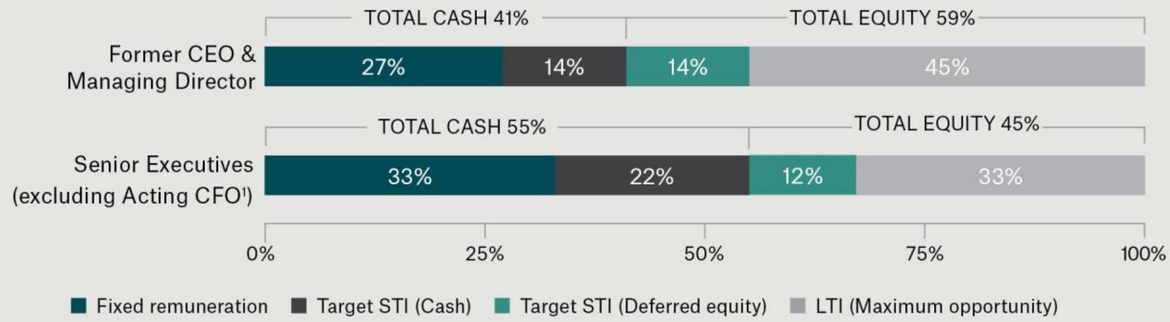
Long-term incentives (LTI)
- The performance measure is relative total shareholder return (**TSR**) against the top 50 listed companies by market capitalisation in the S&P/ASX 100 (excluding real estate investment trusts and mining companies).

For futher detail, see section 3.

POSITIONING

- Total target remuneration for the executives is evaluated on an annual basis against relevant roles in our comparator group, defined as the financial services companies in the S&P/ASX 100, excluding real estate investment trusts.

1.2 2018–19 executive remuneration mix



1. This reflects the remuneration mix of Mr Johnston in his role as CFO. Mr Johnston and Mr Robson were appointed Acting CEO and Acting CFO respectively during the reporting period and their remuneration was varied effective 26 May 2019. See section 1.4 for information on the remuneration arrangements for Mr Johnston and Mr Robson as Acting CEO and Acting CFO respectively.

The remuneration mix and structure for all executives is BEAR-compliant as the lesser of 20 per cent of total remuneration, or 40 per cent of variable remuneration, is deferred for four years.

1.3 2018-19 executive performance and remuneration outcomes

Fixed remuneration

- ***Former CEO & Managing Director:*** There was no change to fixed remuneration.
- ***Acting CEO and Acting CFO:*** See information in section 1.4.
- ***Other Senior Executives:*** Taking into account external benchmarking, moderate fixed remuneration adjustments were made to three Senior Executives to support market alignment.

  The average fixed remuneration increase across the other Senior Executives was 2%.

Short-term incentives (STI)

- ***Performance outcomes against the Group Scorecard:*** A summary of the performance outcomes is below.

Performance measure	Performance outcome
Adjusted NPAT	Below Target
Cash ROE	Below Target
Key Customer Measures	Target
Group Risk Maturity Measure Risk Management and Compliance Measures	Below Target
Engagement LTIFR Talent and People Development Organisational Culture	Target

- ***Former CEO & Managing Director:*** Actual STI outcome was 25% of target.
- ***Acting CEO:*** Actual STI outcome was 39% of target.[1]
- ***Senior Executives:*** Actual STI outcomes ranged between 33% and 67% of target.

For further detail, see section 2.

Long-term incentives (LTI)

- ***Performance outcomes:*** The 2015 LTI grant was tested against the relative TSR performance condition on 31 August 2018. Suncorp's TSR was at the 47th percentile of the peer group of companies.
- ***LTI outcomes:*** As Suncorp's TSR was below the median (50th percentile) of the peer group, the 2015 LTI awards lapsed.

1. Actual STI outcome for Mr Johnston reflects his performance as CFO.

1.4 Remuneration arrangements for the Acting CEO and Acting CFO

The Acting CEO, Mr Steve Johnston (previously CFO), was appointed during the reporting period and his remuneration was varied effective 26 May 2019. At this time, his fixed remuneration was increased from $1 million to $1.3 million for the duration that he acts in this role. His target STI remains at 100 per cent of fixed remuneration and will be apportioned for the 2019–20 award for time he performed the Acting CEO role. Thirty-five percent of Mr Johnston's actual 2019–20 STI award will be deferred, with 50 per cent vesting on the first anniversary, and 50 per cent vesting on the second anniversary, of the date of grant. Mr Johnston continues to participate in the LTI plan based on 100 per cent of his CFO fixed remuneration. Mr Johnston's remuneration structure is BEAR-compliant through the level and operation of the LTI component.

Mr Johnston's 2018–19 target STI amount and deferral conditions did not change upon appointment to Acting CEO. It was based on 100 per cent of his CFO fixed remuneration and the deferral conditions are the same as those outlined above.

Mr Johnston's remuneration package also includes a one-off equity award with a face value of $300,000 in recognition of his acceptance of the Acting CEO role and the increased contribution expected from him during this time. This award of 21,978 rights (based on the one-month volume weighted average price (VWAP) up to 26 May 2019) will vest on 26 May 2020, provided Mr Johnston has not given notice of his resignation or been terminated for cause at the time of vesting. It is subject to malus and clawback criteria.

The Acting CFO, Jeremy Robson (previously Deputy CFO) was appointed during the reporting period. His remuneration was varied effective 26 May 2019 and he became a KMP from this time. Mr Robson's fixed remuneration increased to $630,000 for the duration that he performs this role. His target STI for 2019–20 was increased to 100 per cent of fixed remuneration to align to the other Senior Executives and will be apportioned for the time spent in the Acting CFO role. To ensure BEAR compliance, 40 per cent of the actual 2019–20 STI award for Mr Robson relating to time served as Acting CFO will be deferred for four years.

Mr Robson does not participate in the LTI plan. Mr Robson's 2018–19 target STI and deferral conditions did not change on appointment to Acting CFO. These are reflective of the arrangements that he had in place as Deputy CFO.

The above interim remuneration levels were determined in light of relevant remuneration benchmark data and are considered by the Board to be fair and reasonable.

1.5 Former CEO & Managing Director's remuneration arrangements on cessation of employment

The former CEO & Managing Director, Michael Cameron, stepped down as a KMP on 26 May 2019. He remains employed in an advisory capacity until 9 August 2019. Mr Cameron remained eligible to participate in the 2018–19 STI plan. In light of Group performance, and other relevant factors as considered by the Board, his actual STI was $525,000 or 25% of the target opportunity. See Section 2 for further information.

Mr Cameron's existing STI deferred equity awards will remain on-foot after cessation of employment and will vest in the normal course, subject to malus and clawback criteria. His LTI awards will be pro-rated for the period of time he was employed during the relevant performance period. They will vest in the normal course, subject to achievement of the relative TSR performance measure and malus and clawback criteria.

Under his contract, Mr Cameron is entitled to receive 12 months' notice, or a payment in lieu. Following cessation of employment, Mr Cameron will receive his contractual entitlements, including the balance of his notice period paid, being $1.668 million.

Mr Cameron is not entitled to participate in the 2019–20 STI plan.

1.6 Changes for 2019–20

The executive and employee remuneration changes for 2019–20, including changes to customer-facing retail banking employees, are outlined at the front of this Remuneration Report in the shareholder letter from the Chairman of the Board and the Chairman of the People and Remuneration Committee. The Acting CEO and Acting CFO remuneration arrangements are outlined in section 1.4, and the former CEO & Managing Director's remuneration arrangements on cessation of employment are outlined in section 1.5.

1.7 Remuneration paid, or vested, for the executives over 2018–19

	Remuneration earned in respect of 2018–19			Past 'at-risk' remuneration vested in 2018–19				Future 'at-risk' remuneration opportunity relating to 2018–19	
	Fixed[1]	Other[2]	2018–19 incentives[3]	Deferred STI (cash)[4]	Deferred STI (equity)[5]	LTI / RSP (equity)[6]	Actual remuneration earned or vested in 2018–19[7]	2018–19 STI (deferred equity)[8]	LTI / RSP (equity) opportunity in 2018–19[9]
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Senior Executives									
Steve Johnston[10] *Acting CEO*	1,024	-	254	268	221	-	1,767	144	1,300
David Carter *CEO Banking & Wealth*	837	-	182	103	138	43	1,304	104	800
Gary Dransfield *CEO Insurance*	1,050	-	228	250	232	-	1,760	130	1,050
Sarah Harland *Chief Information Officer*	737	-	221	-	119	-	1,077	126	700
Lisa Harrison *Chief Program Excellence Officer*	600	-	169	66	48	38	921	96	600
Pip Marlow *CEO Customer Marketplace*	1,000	-	215	-	60	802	2,077	122	1,000
Amanda Revis *Chief People Experience Officer*	837	-	218	217	177	-	1,449	124	800
Jeremy Robson *Acting CFO*[11]	70	-	19	80	52	41	261	9	-
Paul Smeaton *CEO New Zealand*	869	-	277	175	186	-	1,507	158	833
Fiona Thompson *Chief Risk Officer*	650	-	198	51	124	32	1,055	113	650
Former executive director									
Michael Cameron[12] *Former CEO & Managing Director*	1,861	1,668	237	668	664	-	5,098	250	1,092

1 This reflects fixed remuneration, including base salary, superannuation and any salary sacrificed benefits.
2 This includes the payment on cessation of employment that will be paid to Mr Cameron. It represents the balance of his payment in lieu of notice which will be paid in accordance with contractual commitments. Mr Cameron will receive no other benefits on cessation of employment.
3 This includes the cash component of STI which relates to 2018–19 performance. The cash component of STI represents 50 per cent of the total 2018–19 STI for the former CEO & Managing Director, 65 per cent of the total 2018–19 STI for Senior Executives (excluding the Acting CFO) and 70 per cent of the total 2018-19 STI for the Acting CFO.
4 This reflects the deferred cash STI awarded for 2015–16 that vested during 2018–19. For Mr Smeaton, a portion relates to the vesting of deferred STI awarded prior to his appointment as a Senior Executive. For Mr Carter, Ms Harrison, Mr Robson, and Ms Thompson, this fully relates to vesting of deferred STI awarded prior to their appointment as a Senior Executive.
5 This reflects deferred equity STI awarded for 2016–17 that vested during 2018–19. For Mr Carter and Ms Thompson, a portion relates to vesting of deferred STI awarded prior to their appointment as Senior Executives. For Ms Harrison and Mr Robson, this fully relates to vesting of deferred STI awarded prior to their appointment as Senior Executives.
6 This represents vesting of past awards made under the LTI or restricted share plan (**RSP**) (including awards made on commencement at Suncorp in recognition of incentives forgone with the executive's previous employer) that were granted in prior years and that vested in 2018–19. The 2015 LTI grant did not vest on 30 September 2018 as the relative TSR performance measure was not met. Ms Marlow received tranche 2 of 3 of her restricted shares awarded on commencement at Suncorp on 1 July 2018. Mr Carter, Ms Harrison, Mr Robson and Ms Thompson's restricted shares that vested during the year relate to awards granted prior to becoming a Senior Executive.
7 This refers to the total of remuneration earned in respect of 2018–19 and past 'at-risk' remuneration that vested in 2018–19.
8 This includes the deferred equity portion of the 2018–19 STI award which is subject to malus and clawback criteria and the risk of forfeiture over the deferral period. To align the executives with the shareholder experience over the performance period, the total number of rights to be granted in August 2019 as part of the STI is based on the deferred STI amount (plus actual dividends paid in the 2018–19 performance year) divided by the June 2018 volume weighted average price of $14.23.
9 This includes the 2018–19 LTI grant which is subject to malus and clawback criteria and the risk of forfeiture over the deferral period. For Mr Cameron, the LTI granted in 2018–19 has been pro-rated to $1.092 million at face value to reflect the LTI opportunity at cessation of employment ($0.52 million on a fair value basis calculated as the number of performance rights that will remain on-foot after cessation of employment multiplied by the fair value at grant date, assuming the performance measure is met). The full 2018-19 LTI granted to Mr Cameron was $3.5 million at face value ($1.68 million on a fair value basis). For Mr Johnston, the value represents LTI granted in 2018–19 reflecting his previous CFO role and a one-off equity grant awarded in recognition of his acceptance of the Acting CEO role and the increased contribution expected from him over this time. Mr Robson does not participate in the LTI plan.
10 Mr Johnston was appointed Acting CEO during the reporting period and his remuneration was varied effective 26 May 2019. He held the role of CFO for the balance of 2018–19 and served as a KMP for the entire financial year.
11 Mr Robson was appointed Acting CFO during the reporting period and his remuneration was varied effective 26 May 2019. He held the role of Deputy CFO for the balance of 2018-19. Remuneration disclosures above have been pro-rated and reflect the time that he served as KMP in the Acting CFO role.
12 Mr Cameron ceased being a KMP on 26 May 2019. He remains employed in an advisory capacity until 9 August 2019. Remuneration disclosures above have been pro-rated and reflect the time that he served as a KMP. His full 2018–19 incentive (cash) was $262,500 and his full 2018–19 STI (deferred equity) was $277,629.

2. Short-term incentives

The table below outlines the key terms and conditions of the STI plan for 2018–19. Any material changes in the operation of the plan for 2019–20 are also indicated.

<table>
<tr><th>Plan</th><th>Corporate Incentive Plan</th></tr>
<tr><td>Plan rationale</td><td>To incentivise the achievement of key performance measures over a 12-month period that create sustainable value for all stakeholders.</td></tr>
<tr><td>STI opportunity</td><td>
<table>
<tr><th>Executives</th><th>Target STI</th><th>Maximum STI</th></tr>
<tr><td>Former CEO & Managing Director, Acting CEO[1] and other Senior Executives (excluding the Acting CFO)[2]</td><td>100 % of fixed remuneration if targets outlined in scorecards are achieved</td><td>150% of fixed remuneration if targets outlined in scorecards are exceeded and stretch performance levels are achieved</td></tr>
</table>
</td></tr>
<tr><td>Group Scorecard</td><td>
<table>
<tr><th>Performance category</th><th>2018–19 weighting</th><th>2019–20 weighting</th></tr>
<tr><td>Financials</td><td>60%</td><td>50%</td></tr>
<tr><td>Customer</td><td>20%</td><td>20%</td></tr>
<tr><td>Risk</td><td>10%</td><td>15%</td></tr>
<tr><td>People and Culture</td><td>10%</td><td>15%</td></tr>
</table>
Performance against the Group Scorecard, as recommended by the People and Remuneration Committee and approved by the Board, heavily influences the size of the STI pool.
Further detail on the Group Scorecard measures, and performance against these measures, is outlined later in this section.</td></tr>
<tr><td>Performance assessment</td><td>The former CEO & Managing Director was assessed against the Group Scorecard and other relevant factors as considered by the Board.
The Acting CEO and each other Senior Executive (other than the Acting CFO) were assessed based on their individual and their function's contribution towards the achievement of the Group Scorecard, as well as other relevant factors considered by the Board. The Acting CEO's STI for 2018–19 was based on his performance as CFO.
Other relevant factors that the Board considers includes customer outcomes, risk management and individual factors such as adherence to the Suncorp behaviours set out in 'Our Compass'. These are the behavioural expectations that the Board believes form a foundation for successful and sustainable performance.
The Acting CFO was assessed against pre-determined scorecard measures that were aligned to his remit in the role of Deputy CFO.</td></tr>
<tr><td>Performance period</td><td>The 12 months ended 30 June 2019.</td></tr>
<tr><td>Delivery mechanism</td><td>
<table>
<tr><th rowspan="2">Executive</th><th rowspan="2">Cash</th><th colspan="3">Share Rights</th></tr>
<tr><th>Deferred over one year</th><th>Deferred over two years</th><th>Deferred over three years</th></tr>
<tr><td>Former CEO & Managing Director</td><td>50%</td><td>25%</td><td>25%</td><td>-</td></tr>
<tr><td>Acting CEO[3] and other Senior Executives</td><td>65%</td><td>17.5%</td><td>17.5%</td><td>-</td></tr>
<tr><td>Acting CFO[3]</td><td>70%</td><td>10%</td><td>10%</td><td>10%</td></tr>
</table>
To focus executives on total shareholder returns from the start of the performance period, the allocation of share rights is determined based on the VWAP one month prior to the start of the performance period. The allocation of share rights also reflects the value of dividends paid over the performance period.</td></tr>
<tr><td>Malus and clawback</td><td>The deferred share rights are subject to malus and clawback criteria. See section 5.3 for further information.</td></tr>
<tr><td>Termination of employment</td><td>See section 6 for the treatment of STI on termination.</td></tr>
</table>

1 For 2018–19, the Acting CEO's target and maximum STI remained at 100 per cent and 150 per cent of his CFO fixed remuneration respectively. For 2019–20, the Acting CEO's target and maximum STI remained at 100 per cent and 150 per cent of fixed remuneration, however it will be based on his Acting CEO fixed remuneration for the proportion of time spent in the year as Acting CEO.

2 For 2018–19, the Acting CFO's target and maximum STI remained at the Deputy CFO level. For 2019–20, the Acting CFO's target STI and maximum STI increased to 100 per cent and 150 per cent of his Acting CFO fixed remuneration for the proportion of time spent in the year as Acting CFO.

3 Given the interim nature of the Acting CEO and Acting CFO roles, the Acting CEO remained on the STI deferral arrangements for Senior Executives, and the Acting CFO remained on the standard deferral arrangements that applied to him as Deputy CFO.

Rationale and weighting for 2018-19 scorecard measures

Outlined below are the scorecard measures and weightings for 2018–19, along with the rationale as to why each scorecard measure was chosen.

Scorecard Category	Scorecard measure	Weighting	Rationale
Financials	Adjusted NPAT	40%	The Board considers Adjusted NPAT to be an appropriate reflection of the Suncorp Group's performance relative to its targets. The measure provides relevant information used internally to evaluate the performance of Suncorp functions, and to analyse trends in revenue and cash-based expenses, based upon controllable items. It is the basis for operational objectives and is used to allocate resources. As a measure of management performance, it is an effective measure for STI. Adjusted NPAT provides stakeholders with a clear understanding of the Group's results. It excludes the effects of a limited range of actions and special items that do not reflect the ordinary earnings of the business. Over time, Adjusted NPAT allows the evaluation of Suncorp's period-over-period operating performance. The Board considers this measure to be useful to shareholders in evaluating the underlying operating performance of the business. Adjusted NPAT has been determined on a consistent basis since 2011–12. Net adjustments over 2018–19 were $122 million (post-tax).
	Cash ROE	20%	Cash ROE is a measure of the Group's profitability and how efficiently Suncorp utilises investments to generate income. Cash ROE considers all controllable and uncontrollable items.
Customer	Key Customer measures	20%	Customer measures are included in the Group Scorecard to align to our purpose to *create a better today for our customers* and as a key consideration in the longer term, sustainable performance of the Group. Proportion of connected customers: Measures the depth of customer relationships through meeting two or more customer needs in different categories (or four products within a single category). Net Promoter Score (NPS) – Consumer and Business: Gauges customers' willingness to recommend Suncorp to others. Number of digital users (million), % of digital claims, and % of new business via digital – Insurance and Banking: Measures customer take-up of digital assets, lodgement of digital claims and increased activations across digital channels. % of Level 1 complaints resolved within five days: Reflects the focus on 'doing the right thing' for customers, resulting in reducing the volume and increasing the efficient resolution of customer complaints. Internal Dispute Resolution bypass rate: Tracks the extent to which Suncorp supports its customers through internal dispute resolution channels thereby reducing the frequency of customers having to pursue external resolution processes.
Risk	Group Risk Maturity measure	10%	This provides an objective measurement that consistently and transparently assesses and tracks the quality of risk management and risk-based performance at a Company level through an aggregated measure of risk maturity which is independently audited.
	Risk Management and Compliance measures		This is an assessment made by the Board based on a dashboard of risk metrics including material regulatory matters, material breaches of the Suncorp Group Risk Appetite Statement tolerances and thresholds, indicators of a risk-aware culture across the Group, and management of conduct risk. It also incorporates external advisor and Board Risk Committee feedback. The metrics provide insights to the Board on the Group's risk culture, compliance practices, incident management and the control environment.
People	Engagement	10%	This measure provides clarity on the quality of the employee experience, and supports optimised workforce performance. High levels of employee engagement mean that Suncorp is better positioned to deliver valued outcomes to its customers and deliver Suncorp's strategy.
	LTIFR		LTIFR provides an indication of the number of injuries that result in lost time for each one million hours worked. Suncorp promotes safety and wellbeing and its Safety Management systems are designed to minimise preventable injury and illness.
	Talent and People Development		This measures the strength of Suncorp's approach to building leadership talent. Effective development and succession planning ensures Suncorp is focused on building the executive capability required to deliver the Business Plan, including valued customer outcomes, today and in the future.
	Organisational culture		This is an assessment made by the Board of the strength of Suncorp's culture, drawing on an organisational culture dashboard which provides qualitative and quantitative data in relation to Customer, Risk and Performance cultural dimensions.

2018–19 Group Scorecard measures and performance outcomes

STRATEGIC DRIVER	MEASURES	ACTUAL PERFORMANCE OUTCOME: Below Target	Target	Target to Maximum	2018-19 ACHIEVEMENT
FINANCIALS					
Deliver targeted Profit after Tax	Adjusted NPAT	✓			The Group delivered an Adjusted NPAT result of $297 million which was below target.
Improve shareholder returns	Cash ROE	✓			Cash ROE for the year was 8.4% which was below target. Cash earnings were impacted by volatile items including natural hazards and investment markets.
CUSTOMER					
Create value for customers	Key Customer Measures		✓		Strong performance across the key customer measures has been driven by sustained momentum in digital throughout the year, in addition to a strong focus on supporting customers through the complaints process during a volatile period in financial services. Good progress was also made in relation to connected customers. Investment in competitive pricing, in addition to sustained marketing activity should support stabilisation of Net Promoter Scores longer term.
RISK					
Manage risk within agreed parameters	Group Risk Maturity Model	✓			Performance against the Group Risk Maturity Model reflected the strength of Suncorp's risk management practices and provides confidence in Suncorp's risk culture.
	Risk Management and Compliance Measures				The Group continues to manage "Severe" level risks well as evidenced by the general effectiveness of our control environment. Core risk and compliance practices will continue to be enhanced with a focus on control management, compliance and action resolution.
PEOPLE					
Maintain an organisational culture that aligns risk, people and customer outcomes	Engagement		✓		The engagement score from the April employee pulse was 60% which is in line with Australian and New Zealand average level of engagement.
	LTIFR				The LTIFR result of 1.3 compares favorably to the most recent industry average of 1.9 and shows Suncorp's commitment to ensuring its people are safe and well.
	Talent and People Development				Talent and development planning for senior roles has strengthened following the introduction of a robust, externally facilitated program undertaken by the SLT and robust talent mapping and assessments for successor roles to the Senior Leadership Team.
	Organisational Culture				Results across the cultural dimensions of Customer, Risk, Performance and Behaviours were as targeted.
OVERALL PERFORMANCE OUTCOME		✓			

Executive STI performance outcomes in 2018–19

Actual STI outcomes for 2018–19 for the executives are outlined below.

	Actual STI Awarded[1]	Target STI[2]	STI award as % of target STI	Maximum STI[3]	STI award as % of maximum STI	% of maximum STI award forfeited	Amount Deferred[4]
	$000	$000		$000			$000
Senior Executives							
S Johnston[5]	390	1,000	39	1,500	26	74	136
D Carter	280	850	33	1,275	22	78	98
G Dransfield	350	1,050	33	1,575	22	78	122
S Harland	340	750	45	1,125	30	70	119
L Harrison	260	600	43	900	29	71	91
P Marlow	330	1,000	33	1,500	22	78	115
A Revis	335	850	39	1,275	26	74	117
J Robson[6]	28	41	67	62	45	55	9
P Smeaton	427	850	50	1,275	33	67	150
F Thompson	305	650	47	975	31	69	107
Former executive director							
M Cameron[7]	473	1,893	25	2,839	17	83	236

1 This is the total actual STI before any deferral. For Mr Cameron and Mr Robson, the actual STI disclosed above has been pro-rated to reflect the time served as KMP in 2018–19. Mr Cameron's full 2018–19 STI awarded was $525,000, being 25% of full-year target.
2 Target STI is 100 per cent of fixed remuneration for the former CEO & Managing Director, Acting CEO and other Senior Executives (excluding Mr Robson). Mr Cameron and Mr Robson's target STI as disclosed above has been pro-rated to reflect the time served as KMP in 2018–19. Mr Cameron's full 2018–19 target STI was $2.1 million.
3 Maximum STI for executives is 150 per cent of the target STI opportunity.
4 50 per cent of the former CEO & Managing Director's STI outcome and 35 per cent of Senior Executives' STI outcome (excluding the Acting CFO) is deferred into share rights for two years with 50 per cent vesting on the first anniversary and 50 per cent vesting on the second anniversary of the date of grant.
Mr Cameron's deferred amount disclosed above has been pro-rated to reflect the time served as KMP in 2018–19. The actual amount deferred is $262,500. For 2018–19, Mr Robson remained on the STI deferral framework for Executive General Managers with 30 per cent deferral into share rights vesting in equal tranches over three years. The deferred amount shown for all executives does not include actual dividends paid in the 2018–19 performance year. See the table in section 1.7 for the total amount deferred including total dividends paid in the 2018–19 performance year.
5 Mr Johnston was appointed Acting CEO during the reporting period and his remuneration was varied effective 26 May 2019. He held the role of CFO for the balance of 2018–19 and was a KMP over the full financial year.
6 Mr Robson was appointed Acting CFO during the reporting period and his remuneration was varied effective 26 May 2019. He became a KMP from this time. He held the role of Deputy CFO for the balance of 2018–19.
7 Mr Cameron ceased being a KMP on 26 May 2019. He remains employed in an advisory capacity until 9 August 2019.

3. Long-term incentives

The table below outlines the key terms and conditions of the LTI plan for 2018–19. Any material changes in the operation of the plan for 2019–20 are also indicated.

Plan	Suncorp Group Equity Incentive Plan. For the purposes of this report, this is referred to as the **LTI plan**.
Plan rationale	To focus executives on creating long-term shareholder value.
LTI opportunity	**Executive** – **LTI** Former CEO & Managing Director – 226,886 performance rights (equating to $3.5 million) were granted in 2018–19. These will be pro-rated to 70,798 rights on cessation of employment (equating to $1.092 million). Senior Executives[1] – 100% of fixed remuneration
LTI instrument	Performance rights. A performance right entitles the executive to one fully paid ordinary share in the Company (or under limited circumstances at the Board's discretion, a cash payment in lieu of an allocation of ordinary shares in the Company) at no cost. Performance rights vest after three years providing service conditions and performance measures are achieved. For awards made in 2018–19 onwards, if performance rights vest, they will convert into vested rights and these rights are required to be held by the executive for a further one-year period. At the end of Year 4, the vested rights are converted to shares. For awards made prior to 2018–19 that are still on-foot, the performance rights will convert into shares after three years, provided the service conditions and performance measures are achieved. To more closely align the experience of the executive to shareholders, a dividend equivalent payment (**DEP**) is made at the end of the four-year deferral period on any vested rights that convert to shares. DEPs are made at the end of the three-year period in relation to LTI awards granted prior to 2018–19 that are still on-foot based on any performance rights that convert to shares.
Allocation	The LTI opportunity is divided by the VWAP of the ordinary share over the five days preceding the date of grant. No discount is applied for the probability of achieving the performance measures.
Performance measure	Relative TSR against a peer group of companies (**Peer Group**). This measure was chosen because it offers a relevant indicator of changes in shareholder value by comparing the Company's return to shareholders against the returns of companies of a similar size and investment profile. It also aligns shareholder returns with reward outcomes for executives over the long term and minimises the impact of market cycles. Executives will only derive value from the LTI awards if the Company's TSR performance is at, or greater than, the 50th percentile (median) of the Peer Group. For 2019–20, Cash ROE has been added as a secondary performance measure to operate alongside relative TSR. Further information on this performance measure will be outlined in the 2019-20 Remuneration Report.
Peer Group	In the absence of a sufficiently sized comparator group of similar sized financial services companies, the Peer Group is the top 50 listed companies by market capitalisation in the S&P/ASX 100 (excluding real estate investment trusts and mining companies), as determined at the commencement of each grant. If a company in the Peer Group is suspended or delisted from the ASX during the performance period, it may be removed from the Peer Group.
Vesting Schedule	**Relative TSR performance outcomes** – **Percentage of LTI award that will vest** Below the 50th percentile – 0% At the 50th percentile (median) – 50% Between the 50th and 75th percentiles – Pro-rata vesting between the 50th and 75th percentiles At or above the 75th percentile – 100%
Performance and deferral period	Performance period – 3 years Deferral period – 4 years For all LTI awards that were granted prior to 2018–19 and are still on-foot, the performance and deferral period is three years.
Malus and clawback	All performance rights are subject to malus and clawback criteria. See section 5.3 for further information.
Termination provisions	See section 6 for information on the treatment of LTI awards on termination.

1 The Acting CEO's LTI opportunity for 2019–20 continues to be based on 100 per cent of his CFO fixed remuneration. Due to the interim nature of the role, the Acting CFO does not participate in the LTI plan.

Performance summary: 2015–2019

Company performance summary over the five financial years to 30 June 2019

Year ended 30 June	Group NPAT $M[1]	Closing share price $	Dividend per share cents
2019	175[2]	13.47[3]	78
2018	1,059	14.59	81
2017	1,075	14.82	73
2016	1,038	12.18	68
2015	1,133	13.43	88

1 This figure refers to Group NPAT. Adjusted NPAT is the profitability figure used in the STI plan. See section 2 for information on Adjusted NPAT.
2 Group NPAT for 2019 was impacted by the $910 million loss arising from the sale of the Australian Life Business. Cash earnings were $1,115 million.
3 This is the closing share price at 28 June 2019.

Suncorp's TSR over the five financial years to 30 June 2019 was 36.45 per cent.

4. Minimum shareholding requirement

To further align executives' interests with those of shareholders, executives are required to have a minimum shareholding in the Company equivalent to at least 100 per cent of one year's pre-tax (gross) fixed remuneration. From 2019–20, given the change in remuneration structure for the Chief Risk Officer role, the minimum shareholding requirement for this role will reduce to 75 per cent of one year's pre-tax (gross) fixed remuneration.

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

Based on their shareholding as at 30 June 2019, all executives are on track to meet the shareholding requirement.

Detailed share ownership information for executives and directors is shown in section 8.4.

5. Remuneration governance, risk and conduct

5.1 Remuneration governance framework

The People and Remuneration Committee recommends the Group's people and remuneration framework and practices to the Board for approval. It assists the Board in fulfilling its responsibilities by ensuring that frameworks are in place that enable the Group to attract, motivate and retain talent and support the achievement of strategic objectives.

In 2018–19, remuneration outcomes for the former CEO & Managing Director and Acting CEO were recommended by the People and Remuneration Committee and approved by the Board. For the other Senior Executives, these were recommended by the Chairman of the People and Remuneration Committee, having regard to input provided by the Chief People Experience Officer, endorsed by the People and Remuneration Committee, and approved by the Board.

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

Board

PEOPLE AND REMUNERATION COMMITTEE

The People and Remuneration Committee members as at 30 June 2019 are:

Chairman	Simon Machell
Members	Sylvia Falzon
	Sally Herman (Chairman of the Risk Committee)
	Dr Douglas McTaggart (Chairman of the Audit Committee)
Ex-officio member	Christine McLoughlin

The People and Remuneration Committee's responsibilities are outlined in its charter available at **suncorpgroup.com.au/about/corporate-governance.** The People and Remuneration Committee met five times during 2018–19. The biographies of the People and Remuneration Committee Chairman and members are outlined in the Directors' Report.

RISK COMMITTEE

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

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

Form a recommendation on the release, reduction, lapse or clawback of deferred incentives for the former CEO & Managing Director, Acting CEO and other Senior Executives. This recommendation is made having regard to a report that is prepared by the Chief Risk Officer, with input from the Remuneration Oversight Committee that also consists of the Chief Financial Officer and the Chief People Experience Officer. The Chairman of the People and Remuneration Committee makes a recommendation which is considered for endorsement by the People and Remuneration Committee and approval by the Board.

EXTERNAL ADVISERS

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

No remuneration recommendations were made by a remuneration consultant during 2018–19.

MANAGEMENT

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

5.2 Remuneration alignment with risk management

Suncorp is committed to effective risk management throughout the Group, with risk management considering both financial and non-financial risks.

During 2018–19, Suncorp introduced a Non-Financial Risk Committee, made up of the Senior Leadership Team, to support the identification, assessment, monitoring, and mitigation of non-financial risks. The introduction of this governance structure complements existing frameworks and processes, and ensures a more holistic approach to the management of risk.

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

The Board sets the risk appetite for the Group and has ultimate responsibility for the effectiveness of the Group's risk management practices. In addition, there are common members between the Board People and Remuneration, Risk, and Audit Committees.

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

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

	APPLICATION: All employees and executives	APPLICATION: Executives only
Separately-weighted risk measures in the Group Scorecard.	✓	
Individual adherence to risk management policies. The application of appropriate risk management practices is assessed to ensure that the former CEO & Managing Director, Acting CEO, other Senior Executives and other employees adhere to the ERMF and the Suncorp Group Risk Appetite Statement and have demonstrated prudent management of the risks that the Group faces. This includes a consideration of both financial and non-financial risks.	✓	
An assessment based on behavioural and cultural measures to ensure performance is aligned to expected ethical standards and employees doing the right thing.	✓	
The Board's application of a judgment overlay on the Group Scorecard outcome, with risk management considered as a key component of the overall performance outcome.	✓	
The hedging prohibition (described below).	✓	
Incorporation of malus and clawback criteria into deferred incentive awards (including LTI awards).	✓	
Deferral of a significant portion of executives' short-term incentive awards.		✓
Requiring executives to meet the minimum shareholding requirement as outlined in section 4.		✓

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

Hedging prohibition

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

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

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

Further detail can be found in the 2018–19 Corporate Governance Statement at suncorpgroup.com.au/about/corporate-governance.

5.3 Incentivising desired conduct and applying consequences for misconduct

Desired conduct at Suncorp is incentivised or encouraged in a number of ways, including:

– The structure of the Group Scorecard consisting of a number of scorecard measures across the categories of Financials, Customer, Risk and People and Culture. The purpose is to reflect all of Suncorp's stakeholders;
– Individual scorecards which impact performance ratings and STI payments being based on both the achievement of performance objectives as well as demonstration of desired behaviours; and
– The deferred remuneration arrangements, and minimum shareholding requirement, in place which encourage executives to adopt a longer-term mindset in making decisions.

Consequences for misconduct are particularly seen through:

– The behavioural STI gateway and modifier introduced for 2019–20 linked to the Code of Conduct. This applies to all executives and employees and can lead to an employee's STI being reduced (down to nil) if they do not adhere to the Code of Conduct; and
– The malus and clawback criteria as outlined below.

Malus and clawback

Deferred incentives (including STI deferred awards, LTI unvested awards, and LTI vested awards subject to further deferral) are subject to malus and clawback criteria based on the Board's judgment. During 2018–19, the Board approved expanded malus criteria and introduced clawback criteria.

In summary, malus and clawback criteria enable the Board, in its absolute discretion and subject to compliance with the law, to determine that a participant's deferred incentives will be fully or partially lapsed (malus) during the deferral period or any shares or cash payment allocated on the vesting of vested rights (including any vested dividend amount) will be forfeited (clawback). In exercising its discretion, the Board will consider whether this is desirable to protect the Group's financial soundness or to respond to unforeseen circumstances.

6. Employment agreements – summary

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

A summary of the agreements for the former CEO & Managing Director and Senior Executives is outlined below.

<table>
<tr><th></th><th>Former CEO & Managing Director</th><th>Senior Executives</th></tr>
<tr><td>Notice period/ termination payments</td><td>Employer-initiated termination
Incapacity: 9 months
Misconduct: none
All other cases: 12 months
Employee-initiated termination: 6 months</td><td>Employer-initiated termination
Incapacity: 3 months
Misconduct: none
All other cases: 12 months
Employee-initiated termination: 3 months</td></tr>
<tr><td>Treatment of STI cash on termination</td><td colspan="2">Employer-initiated and employee-initiated termination
Resignation or redundancy: A cash STI award may be received, subject to performance, at Board discretion.
Misconduct: No cash STI will be awarded.
All other cases: Board discretion.</td></tr>
<tr><td>Treatment of STI deferral on termination</td><td colspan="2">Employer-initiated and employee-initiated termination
Resignation: Any unvested deferred incentive is forfeited.
Redundancy: Any deferred incentive will generally vest at the end of the original deferral period and will remain subject to malus and clawback criteria.
Misconduct: All unvested deferred incentives are forfeited.
All other cases: Board discretion.</td></tr>
<tr><td>Treatment of LTI on termination</td><td colspan="2">Unvested equity
Qualifying reason[1]
The Board has the discretion to determine that any unvested LTI performance rights will continue until the relevant vesting dates and remain subject to the performance measures and malus and clawback criteria, unless otherwise determined by the Board.
Non-qualifying reason
All unvested awards are forfeited.
Vested rights
Any vested rights will continue beyond cessation of employment and convert into shares in the normal course, subject to malus and clawback criteria.</td></tr>
<tr><td>Treatment of restricted shares on termination[2]</td><td colspan="2">Qualifying reason[1]
The Board has the discretion to determine that any unvested restricted shares will be pro-rated for the time served in the vesting period and those reduced number of restricted shares will vest at the termination date subject to malus and clawback criteria, unless otherwise determined by the Board.
Non-qualifying reason
All unvested awards are forfeited.</td></tr>
<tr><td>Change of control</td><td>Where a change of control of the Company occurs, deferred STI and a pro-rata award of current year STI may be awarded, and unvested LTI may vest on a pro-rata basis (subject to the satisfaction of applicable performance measures).</td><td>Impact of a change of control on remuneration is at Board discretion.</td></tr>
</table>

1 This includes death, total and permanent disablement, retirement, redundancy as a result of a Suncorp Group restructure, or any other reason determined by the Board.
2 These shares were granted to some of the executives prior to becoming a KMP.

7. Non-executive director remuneration arrangements

7.1 Remuneration structure

Remuneration component	Description
Fee philosophy	To ensure the Suncorp Group attracts and retains suitably qualified and experienced non-executive directors.
Fee structure	Non-executive directors receive fixed remuneration only, paid as director fees, and do not participate in any performance-based incentive plans. The Chairman receives a fee for chairing the Board and is not paid any additional fees for chairing the Nomination and Customer Committee meetings or attending the Audit, Risk, and People and Remuneration Committee meetings as an ex-officio member. Other non-executive directors receive a base fee and additional fees for each additional Committee chairmanship and membership, excluding the Nomination Committee and the Customer Committee where no additional fee is paid. Fees are based on a number of factors, including the requirements of the role, the size and complexity of the Suncorp Group, and market practice.
Superannuation	Suncorp Group Limited pays compulsory superannuation guarantee contributions (**SGC**) of 9.5% of the director's fee on behalf of all eligible non-executive directors. The Company's general practice is to cap SGC at 9.5% of the Maximum Contribution Base (**MCB**). Superannuation in excess of the MCB is delivered in the form of voluntary additional superannuation contributions or the non-executive director may elect to take this amount as fees. If a non-executive director ceases to be eligible for SGC payments, the equivalent amount is paid in fees.
Aggregate annual fee pool	Non-executive director aggregate fees are within the shareholder-approved maximum aggregate total remuneration limit of $3,500,000 including SGC.
Minimum shareholding requirement	Non-executive directors have four years from the October following their appointment to achieve the minimum shareholding requirement, equivalent to 100% of one year's pre-tax (gross) base fees. A 50% shareholding is required to be achieved after two years. Base fees refer to the Board Chairman fee or Board Member fee only excluding SGC. Based on their shareholding as at 30 June 2019, all non-executive directors are on track to meet this requirement. Detailed share ownership information for the non-executive directors is shown in section 8.4.

7.2 Remuneration levels for non-executive directors

Outlined below are the non-executive director fees for 2018–19. There were no changes to fees over 2018-19.

		Board	Committee[1]		
			Audit	Risk	People and Remuneration[2]
		$000	$000	$000	$000
Chairman fees	Fee	600	60	60	50
	Associated SGC	57	6	6	5
	Total Fee	**657**	**66**	**66**	**55**
Member fees	Fee	220	30	30	25
	Associated SGC	21	3	3	2
	Total Fee	**241**	**33**	**33**	**27**

1 No fee is payable for chairmanship or membership of the Nomination Committee. No fee was payable for chairmanship or membership of the Customer Committee in its inaugural year.
2 The People and Remuneration Committee Chairman and Member fees increased to $66,000 and $33,000 respectively (including SGC) for 2019–20. This aligns the People and Remuneration Committee fees to the Audit and Risk Committee fees, recognising the similar workload and complexity associated with each of these committees.

8. KMP statutory remuneration disclosures

8.1 Non-executive director remuneration during 2018–19 and 2017–18

	Year	Short-term benefits		Post-employment benefits		Total
		Salary and fees	Non-monetary benefits[1]	Superannuation - Statutory	Superannuation – Other[2]	
		$000	$000	$000	$000	$000
Non-executive directors						
Christine McLoughlin[3] *Chairman*	2019	526	-	21	29	576
	2018	300	-	20	9	329
Audette Exel AO *Director*	2019	250	-	21	3	274
	2018	250	-	20	4	274
Sylvia Falzon[4] *Director*	2019	198	-	16	3	217
	2018	-	-	-	-	-
Ian Hammond[5] *Director*	2019	183	-	15	2	200
	2018	-	-	-	-	-
Sally Herman *Director*	2019	335	-	21	11	367
	2018	314	-	20	10	344
Simon Machell[6] *Director*	2019	293	6	21	7	327
	2018	243	-	20	3	266
Dr Douglas McTaggart[7] *Director*	2019	387	-	21	16	424
	2018	305	-	20	9	334
Lindsay Tanner *Director*	2019	265	-	21	5	291
	2018	120	-	10	1	131
Former non-executive director						
Dr Ziggy Switkowski AO[8] *Former Chairman*	2019	148	3	6	8	165
	2018	600	-	20	37	657

1 Non-monetary benefits refer to costs met by the Suncorp Group for spouse airfares.
2 Superannuation in excess of the quarterly MCB is delivered in the form of voluntary additional superannuation contributions or the director may elect to take this amount as fees.
3 Ms McLoughlin was appointed Chairman of the Board on 20 September 2018.
4 Ms Falzon was appointed to the Board on 1 September 2018.
5 Mr Hammond was appointed to the Board on 2 October 2018.
6 Mr Machell was appointed Chairman of the People and Remuneration Committee on 20 September 2018.
7 Dr McTaggart is also a member of the New Zealand subsidiary boards.
8 Dr Switkowski retired from the Board on 20 September 2018.

8.2 Executive remuneration during 2018–19 and 2017–18

		Short-term benefits				Post-employment benefits	Long-term benefits			Share-based payments			
		Salary	Cash incentives	Non-monetary benefits[1]	Other[2]	Superannuation benefits	Deferred incentives[3]	Other[4]	Termination benefits[5]	Deferred STI[6]	Equity Granted[7]	Total remuneration	Performance related
		$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
Senior Executives													
S Johnston[8]	2019	1,003	254	-	67	21	1	83	-	262	525	2,216	47%
Acting CEO	2018	980	575	-	41	20	10	16	-	266	477	2,385	56%
D Carter	2019	816	182	6	27	21	1	24	-	193	350	1,620	45%
CEO Banking & Wealth	2018	766	450	4	-	20	4	22	-	190	239	1,695	52%
G Dransfield	2019	1,029	228	15	52	21	1	16	-	261	511	2,134	47%
CEO Insurance	2018	1,030	584	13	12	20	9	17	-	275	481	2,441	55%
S Harland	2019	716	221	1	4	21	-	13	-	185	322	1,483	49%
Chief Information Officer	2018	666	414	-	(1)	20	-	12	-	168	235	1,514	54%
L Harrison	2019	579	169	5	6	21	-	9	-	148	199	1,136	45%
Chief Program Excellence Officer	2018	577	357	4	25	20	2	38	-	120	104	1,247	47%
P Marlow	2019	979	215	4	20	21	-	16	-	200	523	1,978	47%
CEO Customer Marketplace	2018	950	556	-	4	20	-	17	-	164	683	2,394	59%
A Revis	2019	816	218	17	(34)	21	1	20	-	216	401	1,676	50%
Chief People Experience Officer	2018	780	473	14	(9)	20	8	13	-	216	381	1,896	57%
J Robson[9] *Acting CFO*	2019	70	19	-	1	-	-	-	-	75	1	166	57%
P Smeaton	2019	844	277	10	1	25	1	-	-	232	408	1,798	51%
CEO New Zealand	2018	804	474	-	(8)	24	6	-	-	222	351	1,873	56%
F Thompson	2019	629	198	8	(21)	21	-	10	-	171	283	1,299	50%
Chief Risk Officer	2018	616	372	7	2	20	2	28	-	161	192	1,400	52%
Former executive director													
M Cameron[10]	2019	1,840	237	24	(28)	21	3	(96)	1,668	1,048	1,778	6,495	47%
Former CEO & Managing Director	2018	2,080	914	28	8	20	19	35	-	793	1,593	5,490	61%

1 Non-monetary benefits include costs met by the Suncorp Group for spouse airfares and rebates on insurance premiums.
2 Other short-term benefits refer to annual leave accruals.
3 The amount of deferred incentives awarded to the former CEO & Managing Director and Senior Executives in 2018–19 relates only to the interest accrued in 2018–19 from the 2015–16 cash-based deferral. The deferred equity portion of the 2018–19 STI is outlined in 'Share-based payments – Deferred STI'.
4 Other long-term benefits refer to long service leave accruals.
5 This includes the payment on cessation of employment that will be paid to Mr Cameron. It represents the balance of his payment in lieu of notice which will be paid in accordance with contractual commitments. Mr Cameron will receive no other benefits on cessation of employment.
6 STI deferred into equity-settled rights is expensed to the profit & loss from the start of the performance period to the end of the deferral period.
7 Equity granted refers to grants under the LTI Plan and RSP. Awards are expensed to the profit & loss based on the fair value at grant date over the period from grant date to vesting date. The assumptions underpinning these valuations are set out in note 11 to the financial statements.
8 Mr Johnston was appointed Acting CEO during the reporting period and his remuneration was varied effective 26 May 2019. He held the role of CFO for the balance of 2018-19 and served as a KMP for the entire financial year.
9 Mr Robson was appointed Acting CFO during the reporting period and his remuneration was varied effective 26 May 2019. He held the role of Deputy CFO for the balance of 2018-19. Remuneration disclosures above have been pro-rated and reflect the time that he served as a KMP.
10 Mr Cameron ceased being a KMP on 26 May 2019. He remains employed in an advisory capacity until 9 August 2019.

8.3 Movement in equity plans

The movement of performance rights, share rights and restricted shares during 2018–19 is outlined below.

	Performance rights/share rights/restricted shares granted[1]			Fair value yet to vest					
	Number	Grant date	Financial year in which grant may vest	Min[2] $	Max[3] $	Market value at date of grant[4] $	Vested in year %	Forfeited in year %	Vested in year Number
Senior Executives									
S Johnston[5]	73,651	1 September 2015	30 June 2019	-	-	-	-	100%	-
	14,221	15 August 2017	30 June 2019	-	-	-	100%	-	14,221
	74,422	1 September 2016	30 June 2020	-	500,116	949,625	-	-	-
	14,220	15 August 2017	30 June 2020	-	192,823	192,823	-	-	-
	11,237	10 August 2018	30 June 2020	-	175,522	175,634	-	-	-
	21,978	30 June 2019	30 June 2020	-	296,044	296,044	-	-	-
	77,214	1 September 2017	30 June 2021	-	443,208	1,008,415	-	-	-
	11,236	10 August 2018	30 June 2021	-	175,169	175,619	-	-	-
	64,824	1 September 2018	30 June 2022	-	575,637	1,004,124	-	-	-
D Carter[6]	6,977	1 September 2015	30 June 2019	-	-	-	-	100%	-
	2,520	1 September 2016	30 June 2019	-	-	-	100%	-	2,520
	8,125	15 August 2017	30 June 2019	-	-	-	100%	-	8,125
	775	15 August 2017	30 June 2019	-	-	-	100%	-	775
	2,520	1 September 2016	30 June 2020	-	32,075	32,155	-	-	-
	42,830	29 June 2017	30 June 2020	-	287,818	645,020	-	-	-
	8,124	15 August 2017	30 June 2020	-	110,161	110,161	-	-	-
	775	15 August 2017	30 June 2020	-	10,509	10,509	-	-	-
	8,786	10 August 2018	30 June 2020	-	137,237	137,325	-	-	-
	774	15 August 2017	30 June 2021	-	10,495	10,495	-	-	-
	57,911	1 September 2017	30 June 2021	-	332,409	756,318	-	-	-
	8,786	10 August 2018	30 June 2021	-	136,974	137,325	-	-	-
	51,859	1 September 2018	30 June 2022	-	460,508	803,296	-	-	-
G Dransfield	62,022	1 September 2015	30 June 2019	-	-	-	-	100%	-
	10,976	1 March 2016	30 June 2019	-	-	-	-	100%	-
	14,935	15 August 2017	30 June 2019	-	-	-	100%	-	14,935
	72,463	1 September 2016	30 June 2020	-	486,951	924,628	-	-	-
	14,934	15 August 2017	30 June 2020	-	202,505	202,505	-	-	-
	11,402	10 August 2018	30 June 2020	-	178.099	178,213	-	-	-
	81,075	1 September 2017	30 June 2021	-	465,371	1,058,840	-	-	-
	11,401	10 August 2018	30 June 2021	-	177,742	178,198	-	-	-
	68,066	1 September 2018	30 June 2022	-	604,426	1,054,342	-	-	-
S Harland	7,672	15 August 2017	30 June 2019	-	-	-	100%	-	7,672
	50,920	1 September 2016	30 June 2020	-	342,182	649,739	-	-	-
	7,672	15 August 2017	30 June 2020	-	104,032	104,032	-	-	-
	8,088	10 August 2018	30 June 2020	-	126,335	126,415	-	-	-
	50,189	1 September 2017	30 June 2021	-	288,085	655,468	-	-	-
	8,087	10 August 2018	30 June 2021	-	126,076	126,400	-	-	-
	45,377	1 September 2018	30 June 2022	-	402,948	702,890	-	-	-
L Harrison[7]	6,216	1 September 2015	30 June 2019	-	-	-	-	100%	-
	2,246	1 September 2016	30 June 2019	-	-	-	100%	-	2,246
	3,073	15 August 2017	30 June 2019	-	-	-	100%	-	3,073
	2,246	1 September 2016	30 June 2020	-	28,587	28,659	-	-	-
	3,073	15 August 2017	30 June 2020	-	41,670	41,670	-	-	-
	6,971	10 August 2018	30 June 2020	-	108,887	108,957	-	-	-
	3,073	15 August 2017	30 June 2021	-	41,670	41,670	-	-	-
	46,328	1 September 2017	30 June 2021	-	265,923	605,044	-	-	-
	6,970	10 August 2018	30 June 2021	-	108,662	108,941	-	-	-
	38,894	1 September 2018	30 June 2022	-	345,379	602,468	-	-	-
P Marlow[8]	52,329	31 March 2017	30 June 2019	-	-	-	100%	-	52,329
	3,859	15 August 2017	30 June 2019	-	-	-	100%	-	3,859
	52,329	31 March 2017	30 June 2020	-	693,359	691,279	-	-	-
	3,859	15 August 2017	30 June 2020	-	52,328	52,328	-	-	-
	10,856	10 August 2018	30 June 2020	-	169,571	169,679	-	-	-
	69,493	1 September 2017	30 June 2021	-	398,890	907,579	-	-	-
	10,855	10 August 2018	30 June 2021	-	169,229	169,664	-	-	-
	64,824	1 September 2018	30 June 2022	-	575,637	1,004,124	-	-	-
A Revis	56,208	1 September 2015	30 June 2019	-	-	-	-	100%	-
	11,380	15 August 2017	30 June 2019	-	-	-	100%	-	11,380
	60,712	1 September 2016	30 June 2020	-	407,985	774,685	-	-	-
	11,379	15 August 2017	30 June 2020	-	154,299	154,299	-	-	-
	9,243	10 August 2018	30 June 2020	-	144,376	144,468	-	-	-
	61,771	1 September 2017	30 June 2021	-	354,566	806,729	-	-	-
	9,243	10 August 2018	30 June 2021	-	144,098	144,468	-	-	-
	51,859	1 September 2018	30 June 2022	-	460,508	803,296	-	-	-

	Performance rights/share rights/restricted shares granted[1]			Fair value yet to vest					
	Number	Grant date	Financial year in which grant may vest	Min[2] $	Max[3] $	Market value at date of grant[4] $	Vested in year %	Forfeited in year %	Vested in year Number
J Robson[9]	7,009	1 September 2015	30 June 2019	-	-	-	-	100%	-
	2,413	1 September 2016	30 June 2019	-	-	-	100%	-	2,413
	3,438	15 August 2017	30 June 2019	-	-	-	100%	-	3,438
	2,413	1 September 2016	30 June 2020	-	30,713	30,786	-	-	-
	3,438	15 August 2017	30 June 2020	-	46,619	46,619	-	-	-
	2,722	10 August 2018	30 June 2020	-	42,518	42,545	-	-	-
	3,437	15 August 2017	30 June 2021	-	46,606	46,606	-	-	-
	2,720	10 August 2018	30 June 2021	-	42,405	42,514	-	-	-
	2,720	10 August 2018	30 June 2022	-	42,296	42,514	-	-	-
P Smeaton	54,269	1 September 2015	30 June 2019	-	-	-	-	100%	-
	11,967	15 August 2017	30 June 2019	-	-	-	100%	-	11,967
	61,406	1 September 2016	30 June 2020	-	412,648	783,541	-	-	-
	11,966	15 August 2017	30 June 2020	-	162,259	162,259	-	-	-
	9,259	10 August 2018	30 June 2020	-	144,626	144,718	-	-	-
	61,771	1 September 2017	30 June 2021	-	354,566	806,729	-	-	-
	9,259	10 August 2018	30 June 2021	-	144,348	144,718	-	-	-
	54,028	1 September 2018	30 June 2022	-	479,769	836,894	-	-	-
F Thompson[10]	5,426	1 September 2015	30 June 2019	-	-	-	-	100%	-
	1,906	1 September 2016	30 June 2019	-	-	-	100%	-	1,906
	204	15 August 2017	30 June 2019	-	-	-	100%	-	204
	7,741	15 August 2017	30 June 2019	-	-	-	100%	-	7,741
	1,906	1 September 2016	30 June 2020	-	24,295	24,321	-	-	-
	34,862	29 June 2017	30 June 2020	-	234,273	525,022	-	-	-
	7,740	15 August 2017	30 June 2020	-	104,954	104,954	-	-	-
	204	15 August 2017	30 June 2020	-	2,766	2,766	-	-	-
	7,263	10 August 2018	30 June 2020	-	113,448	113,521	-	-	-
	204	15 August 2017	30 June 2021	-	2,766	2,766	-	-	-
	46,328	1 September 2017	30 June 2021	-	265,923	605,044	-	-	-
	7,262	10 August 2018	30 June 2021	-	113,215	113,505	-	-	-
	42,136	1 September 2018	30 June 2022	-	374,168	652,687	-	-	-
Former executive director									
M Cameron[11]	226,639	24 September 2015	30 June 2019	-	-	-	-	100%	-
	42,662	15 August 2017	30 June 2019	-	-	-	100%	-	42,662
	235,017	22 September 2016	30 June 2020	-	1,579,314	2,998,817	-	-	-
	42,661	15 August 2017	30 June 2020	-	578,483	578,483	-	-	-
	33,139	10 August 2018	30 June 2020	-	477,864	517,963	-	-	-
	270,251	14 September 2017	30 June 2021	-	1,551,241	3,407,865	-	-	-
	33,138	10 August 2018	30 June 2021	-	476,856	517,947	-	-	-
	226,886	20 September 2018	30 June 2022	-	1,676,688	3,273,965	-	-	-

1 The expiry date for performance rights and the fair value per right can be found in note 11.1 to the financial statements.

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

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

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

5 Mr Johnston was awarded 21,978 share rights in recognition of his acceptance of the Acting CEO role and the increased contribution expected from him during this time. This award will vest on 26 May 2020, subject to service conditions and the Suncorp Group Equity Incentive Plan Rules.

6 Mr Carter was awarded 7,559 restricted shares prior to commencing as a Senior Executive relating to his previous Executive General Manager role. These shares vest equally over three years from 1 September 2016 and the balance of 2,520 shares will vest on 31 August 2019, subject to meeting the service conditions and the Suncorp Group Equity Incentive Plan Rules.

7 Ms Harrison was awarded 24,755 restricted shares prior to commencing as a Senior Executive relating to her previous Executive General Manager role. The balance of 2,246 shares will vest on 31 August 2019, subject to meeting the service conditions and the Suncorp Group Equity Incentive Plan Rules.

8 Ms Marlow was awarded 156,988 restricted shares upon commencement of employment in recognition of incentives forgone with her previous employer. These shares vest equally over three years from 1 July 2017 and the balance of 52,329 shares will vest after the Closed Period ends following the 2018-19 Annual Results Announcement, subject to meeting service conditions and the Suncorp Group Equity Incentive Plan Rules.

9 Mr Robson was awarded 7,238 restricted shares relating to his previous Executive General Manager role. These shares vest equally over three years from 1 September 2016 and the balance of 2,413 shares will vest on 31 August 2019, subject to meeting the service conditions and the Suncorp Group Equity Incentive Plan Rules.

10 Ms Thompson was awarded 6,884 restricted shares prior to commencing as a Senior Executive relating to previous roles. The balance of 1,906 shares will vest on 31 August 2019, subject to meeting the service conditions and the Suncorp Group Equity Incentive Plan Rules.

11 Mr Cameron's LTI awards will be pro-rated for time served in the performance period upon cessation of employment on 9 August 2019. 70,798 rights (of 226,886 rights) from the 2018 LTI grant and 174,332 rights (of 270,251 rights) from the 2017 LTI grant will remain on foot and will vest subject to the original vesting conditions and the Suncorp Group Equity Incentive Plan Rules.

8.4 Related party transactions

Loans to KMP and their related parties

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

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

	2018–19			
	Balance 1 July 2018	Balance 30 June 2019	Interest charged during the year[1]	Highest balance
	$000	$000	$000	$000
Senior Executives				
S Johnston	1,200	1,200	-	1,200
D Carter	783	482	28	783
A Revis	4,595	4,340	148	4,595
P Smeaton	403	1,903	10	1,925

1 The loans may have offset facilities, in which case the interest charged is after the offset. No interest was charged on Mr Johnston's loan as it was fully offset.

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

	2018–19		
	KMP	Other related parties	Total
	$000	$000	$000
Opening balance	5,931	1,050	6,981
Closing balance	5,227	2,698	7,925
Interest charged	173	13	186
	Number	Number	Number
Number of individuals at 30 June 2019	4	2	6

Movement in securities held by KMP

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

			1 July 2018 – 30 June 2019			
		Balance 1 July 2018	Received as remuneration[1]	Purchases (sales)	Other changes[2]	Balance 30 June 2019
		Number	Number	Number	Number	Number
Non-executive directors						
C McLoughlin	Ordinary shares	26,000	-	24,000	-	50,000
A Exel AO	Ordinary shares	17,253	-	-	989	18,242
S Falzon	Ordinary shares	-	-	5,260	2,340	7,600
I Hammond	Ordinary shares	-	-	15,377	3,741	19,118
S Herman	Ordinary shares	20,000	-	6,000	-	26,000
S Machell	Ordinary shares	30,000	-	5,000	-	35,000
Dr D McTaggart	Ordinary shares	26,408	-	-	1,514	27,922
L Tanner	Ordinary shares	2,200	-	3,900	-	6,100

		Balance 1 July 2018	1 July 2018 – 30 June 2019 Received as remuneration[1]	Purchases (sales)	Other changes[2]	Balance 30 June 2019
		Number	Number	Number	Number	Number
Senior Executives[3]						
S Johnston	Ordinary shares	72,879	14,221	-	-	87,100
	Unvested securities	253,728	109,275	-	(87,872)	275,131
D Carter	Ordinary shares	39,239	11,420	2,101	721	53,481
	Unvested securities	131,331	69,431	-	(18,397)	182,365
G Dransfield[4]	Ordinary shares	75,568	14,935	-	2,951	93,454
	Unvested securities	256,405	90,869	-	(87,933)	259,341
S Harland	Ordinary shares	19,584	7,672	-	-	27,256
	Unvested securities	116,453	61,552	-	(7,672)	170,333
L Harrison	Ordinary shares	28,249	5,319	-	-	33,568
	Unvested securities	66,255	52,835	-	(11,535)	107,555
P Marlow	Ordinary shares	52,330	56,188	-	-	108,518
	Unvested securities	181,869	86,535	-	(56,188)	212,216
A Revis[5]	Ordinary shares	36,862	11,380	-	29	48,271
	SUNPF Capital Notes	1,962	-	-	-	1,962
	Unvested securities	201,450	70,345	-	(67,588)	204,207
J Robson	Ordinary shares	-	-	-	8,263	8,263
	Unvested securities	-	-	-	17,450	17,450
P Smeaton	Ordinary shares	31,122	11,967	-	-	43,089
	Unvested securities	201,379	72,546	-	(66,236)	207,689
F Thompson[6]	Ordinary shares	5,505	9,851	-	-	15,356
	Unvested securities	106,521	56,661	-	(15,277)	147,905
Former non-executive director						
Dr Z Switkowski AO	Ordinary shares	311,599	-	(201,599)	(110,000)[7]	-
Former executive director[3]						
M Cameron	Ordinary shares	255,000	42,662	-	(297,662)[8]	-
	Unvested securities	817,230	293,163	-	(1,110,393)[8]	-

1 For the Senior Executives and former executive director, remuneration includes performance rights granted under the LTI plan, restricted shares granted under the RSP and share rights granted as part of the STI award which only vest subject to the satisfaction of specified service conditions and performance measures (as applicable).
2 'Other changes' for the non-executive directors relate to equity held at commencement for those appointed as KMP after 30 June 2018, equity held on retirement for those that ceased as KMP during 2018-19, and dividend plan allotments during 2018-19. 'Other changes' for the Senior Executives and former executive director relate to equity awards that vested or were forfeited during 2018-19, equity held at commencement for those appointed as KMP after 30 June 2018, equity held on termination for those that ceased as KMP during 2018-19 and dividend plan allotments during 2018-19.
3 The number of unvested securities disclosed for the Senior Executives and former executive director refers to the performance rights granted under the LTI Plan, restricted shares granted under the RSP and share rights granted as part of the STI award (as applicable). Accordingly, beneficial entitlement of those unvested securities remains subject to satisfaction of specified service conditions and performance measures (as applicable).
4 'Other changes' in ordinary shares for Mr Dransfield relate to participation in the Dividend Reinvestment Plan.
5 'Other changes in ordinary shares for Ms Revis relate to participation in the Dividend Reinvestment Plan.
6 'Other changes' in ordinary shares for Ms Thompson relate to participation in the Equity Participation Plan.
7 'Other changes' in ordinary shares for Dr Switkowski AO represent securities held upon retirement from the Board.
8 'Other changes' in ordinary shares and unvested securities for Mr Cameron represent securities held on 26 May 2019, being the day he ceased to be a KMP. Of the unvested securities held, 480,147 performance rights remain subject to performance measures.

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

Other KMP transactions

Financial instrument transactions

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

Transactions other than financial instrument transactions

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

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

CHRISTINE MCLOUGHLIN

Chairman of the Board

7 August 2019

DR DOUGLAS MCTAGGART

Director

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

To the Directors of Suncorp-Metway Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Suncorp-Metway Limited for the financial year ended 30 June 2019 there have been:

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

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

KPMG

KPMG

Scott Guse
Partner

Brisbane
7 August 2019

SUNCORP-METWAY LIMITED AND SUBSIDIARIES

ABN 66 010 831 722

Consolidated financial report
For the financial year ended 30 June 2019

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STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2019

		Consolidated		Company	
		2019	2018	2019	2018
	Note	$M	$M	$M	$M
Interest income	5.1	2,547	2,528	2,535	2,514
Interest expense	5.1	(1,384)	(1,347)	(1,255)	(1,234)
Net interest income	5.1	1,163	1,181	1,280	1,280
Other operating income	5.2	54	60	368	378
Total net operating income		1,217	1,241	1,648	1,658
Operating expenses	6	(696)	(720)	(1,126)	(1,147)
Impairment loss on financial assets	13.2	(13)	(27)	(12)	(24)
Profit before income tax		508	494	510	487
Income tax expense	7.1	(153)	(148)	(150)	(142)
Profit for the financial year attributable to owners of the Company		355	346	360	345
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Net change in fair value of cash flow hedges	20	20	16	20	16
Net change in fair value of investment securities	20	3	(12)	3	(12)
Income tax expense	20	(7)	(1)	(7)	(1)
Total other comprehensive income		16	3	16	3
Total comprehensive income for the financial year attributable to owners of the Company		371	349	376	348

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

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2019

		Consolidated		Company	
		2019	2018	2019	2018
	Note	$M	$M	$M	$M
Assets					
Cash and cash equivalents	8	638	506	638	504
Receivables due from other banks	9	499	474	499	474
Trading securities	10	1,227	1,639	1,227	1,639
Derivatives	11	593	224	593	224
Investment securities	10	3,954	4,058	3,954	4,059
Loans and advances	12	59,154	58,598	58,973	58,377
Due from related parties	28.2	357	362	7,211	7,479
Deferred tax assets	7.2	42	45	40	45
Other assets		191	199	169	167
Total assets		66,655	66,105	73,304	72,968
Liabilities					
Payables due to other banks		353	148	353	148
Deposits and short-term borrowings	14	46,551	46,043	46,571	46,707
Derivatives	11	409	158	409	158
Payables and other liabilities	15	424	423	432	414
Due to related parties	28.2	14	20	10,508	11,125
Securitisation liabilities	23.3	3,831	4,848	-	-
Debt issues	16	10,358	9,854	10,358	9,854
Subordinated notes	17	672	742	672	742
Total liabilities		62,612	62,236	69,303	69,148
Net assets		4,043	3,869	4,001	3,820
Equity					
Share capital	18	2,648	2,648	2,648	2,648
Capital notes	19	585	550	585	550
Reserves	20	(259)	(298)	113	74
Retained profits		1,069	969	655	548
Total equity attributable to owners of the Company		4,043	3,869	4,001	3,820

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 30 June 2019

Consolidated	Note	Share capital $M	Capital notes $M	Reserves $M	Retained profits $M	Total equity $M
Balance as at 1 July 2017		2,648	825	(307)	958	4,124
Profit for the financial year		-	-	-	346	346
Total other comprehensive income for the financial year		-	-	3	-	3
Total comprehensive income for the financial year		-	-	3	346	349
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(329)	(329)
Transfers	20	-	-	6	(6)	-
Capital notes issued	19	-	175	-	-	175
Capital notes buy back	19	-	(450)	-	-	(450)
Balance as at 30 June 2018		2,648	550	(298)	969	3,869
Impact on initial application of AASB 9 (net of tax)	2.1	-	-	16	(23)	(7)
Restated balance as at 1 July 2018		2,648	550	(282)	946	3,862
Profit for the financial year		-	-	-	355	355
Total other comprehensive income for the financial year		-	-	16	-	16
Total comprehensive income for the financial year		-	-	16	355	371
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(225)	(225)
Transfers	20	-	-	7	(7)	-
Capital notes issued	19	-	35	-	-	35
Balance as at 30 June 2019		2,648	585	(259)	1,069	4,043

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 30 June 2019

Company	Note	Share capital $M	Capital notes $M	Reserves $M	Retained profits $M	Total equity $M
Balance as at 1 July 2017		2,648	825	65	538	4,076
Profit for the financial year		-	-	-	345	345
Total other comprehensive income for the financial year		-	-	3	-	3
Total comprehensive income for the financial year		-	-	3	345	348
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(329)	(329)
Transfers	20	-	-	6	(6)	-
Capital notes issued	19	-	175	-	-	175
Capital notes buy back	19	-	(450)	-	-	(450)
Balance as at 30 June 2018		2,648	550	74	548	3,820
Impact on initial application of AASB 9 (net of tax)	2.1	-	-	16	(21)	(5)
Restated balance as at 1 July 2018		2,648	550	90	527	3,815
Profit for the financial year		-	-	-	360	360
Total other comprehensive income for the financial year		-	-	16	-	16
Total comprehensive income for the financial year		-	-	16	360	376
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(225)	(225)
Transfers	20	-	-	7	(7)	-
Capital notes issued	19	-	35	-	-	35
Balance as at 30 June 2019		2,648	585	113	655	4,001

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

STATEMENTS OF CASH FLOWS

For the financial year ended 30 June 2019

	Note	Consolidated 2019 $M	Consolidated 2018 $M	Company 2019 $M	Company 2018 $M
Cash flows from operating activities					
Interest received		2,565	2,524	2,552	2,508
Interest paid		(1,404)	(1,341)	(1,273)	(1,231)
Fees and other operating income received		219	184	514	491
Dividends and trust distributions received		-	-	10	12
Fees and operating expenses paid		(833)	(824)	(1,251)	(1,250)
Reimbursement to related parties for income tax payments		(172)	(148)	(165)	(141)
Net movement in operating assets					
Trading securities		412	(119)	412	(119)
Loans and advances		(616)	(3,426)	(443)	(3,473)
Net movement in operating liabilities					
Net movement in amounts due to (from) related parties		33	(85)	(542)	1,086
Deposits and short-term borrowings		368	585	(260)	1,231
Net cash from (used in) operating activities	22.1	572	(2,650)	(446)	(886)
Cash flows from investing activities					
Proceeds from the sale or maturity of investment securities		1,564	2,486	1,564	2,486
Payments for acquisition of investment securities		(1,138)	(2,158)	(1,138)	(2,158)
Net cash from investing activities		426	328	426	328
Cash flows from financing activities					
Proceeds from debt issues and securitisation liabilities	22.3	3,117	5,297	3,117	2,547
Repayment of debt issues and securitisation liabilities	22.3	(3,903)	(2,959)	(2,883)	(1,972)
Payments for the buy back and issue of subordinated notes	17	(70)	-	(70)	-
Proceeds from issue of capital notes	19	35	-	35	-
Payments for the buy back of capital notes	19	-	(275)	-	(275)
Dividends paid	3	(225)	(329)	(225)	(329)
Net cash (used in) from financing activities		(1,046)	1,734	(26)	(29)
Net decrease in cash and cash equivalents		(48)	(588)	(46)	(587)
Cash and cash equivalents at the beginning of the financial year		832	1,420	830	1,417
Cash and cash equivalents at the end of the financial year	22.2	784	832	784	830

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2019

1. Reporting entity

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

The consolidated financial statements for the financial year ended 30 June 2019 comprise the Company and its subsidiaries (the **Group**) and were authorised for issue by the Board of Directors on 7 August 2019.

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

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

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

2. Basis of preparation

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

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

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

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

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

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

AASB 9 *Financial Instruments* (**AASB 9**) has been applied from 1 July 2018 and the option not to restate prior period financial statements was elected. The change in classification, measurement and impairment resulting from the adoption of AASB 9 was recognised in the 1 July 2018 opening retained earnings and other appropriate equity reserves as disclosed in note 2.1.

2.1 Statement of compliance

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

AASB 9 and AASB 15 *Revenue from Contracts with Customers* (**AASB 15**) have been applied by the Group from 1 July 2018.

AASB 9 Financial Instruments

AASB 9 was issued in December 2014 and replaces AASB 139 *Financial Instruments: Recognition and Measurement* (**AASB 139**). It addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce a forward-looking expected credit loss impairment model, and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks. The Group has applied all sections of AASB 9 from 1 July 2018 except for hedge accounting.

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

For updates to significant accounting policies, please refer to note 31.

Transitional impact on implementation of AASB 9

The implementation of AASB 9 resulted in the following financial assets and financial liabilities being reclassified or remeasured:

— Cash and cash equivalents and receivables due from other banks were reclassified from loans and receivables to amortised cost.

— Trading securities: financial assets designated at fair value through profit or loss were reclassified to financial assets at fair value through profit or loss (**FVTPL**).

— Investment securities that were measured as available-for-sale and held-to-maturity were reclassified to fair value through other comprehensive income (**FVOCI**).

— The impairment provision for loans and advances was remeasured due to adoption of the expected credit losses (**ECL**) model.

— Offshore commercial papers disclosed within the statement of financial position caption ‘deposits and short-term borrowings’ continued to be measured at FVTPL under AASB 9; however fair value changes resulting from the issuer’s own credit risk will be recognised in other comprehensive income, with all other changes in fair value continuing to be recognised in profit and loss.

No financial assets or liabilities classified as FVTPL under AASB 139 were reclassified to amortised cost or FVOCI under AASB 9. There were no other changes to the classification and measurement of other financial assets or liabilities not listed above and as disclosed in note 31.15 of the consolidated financial report for the financial year ended 30 June 2018.

The following table outlines the quantitative impact from the initial application of AASB 9 for trading and investment securities, gross loans and advances, and the provision for impairment on loans and advances. It includes the effect on reserves and retained profits as a result of remeasurement. Cash and cash equivalents, receivables due from other banks, and offshore commercial papers are excluded from the table as the effect on initial adoption of AASB 9 was insignificant. The transition to AASB 9 increased the Group’s net deferred tax assets by $3 million.

Consolidated	Trading and investment securities $M	Gross loans and advances $M	Provision for impairment on loans and advances $M	Reserves $M	Retained profits $M
Closing balance as at 30 June 2018 under AASB 139	5,697	58,728	130	(298)	969
Closing balance is comprised of:					
FVTPL (mandatory)	1,639	-	-	-	-
Available-for-sale	3,544	-	-	6	-
Held-to-maturity	514	-	-	-	-
Amortised cost	-	58,728	-	-	-
Equity reserve for credit losses	-	-	-	88	-
Other reserves	-	-	-	(392)	-
Reclassification on 1 July 2018					
From available-for-sale (AASB 139)[1]	(3,544)	-	-	(6)	-
From held-to-maturity (AASB 139)[2]	(514)	-	-	-	-
To FVOCI - debt instrument (AASB 9)[1&2]	4,058	-	-	6	-
Remeasurement on 1 July 2018					
From held-to-maturity at amortised cost (AASB 139) to FVOCI (debt instrument)[2]	10	-	-	7	-
Increase in expected credit losses[3]	-	-	20	9	(23)
Opening balance as at 1 July 2018 under AASB 9	5,707	58,728	150	(282)	946
Opening balance is comprised of:					
FVTPL (mandatory)	1,639	-	-	-	-
FVOCI - debt instrument	4,068	-	-	13	-
Amortised cost	-	58,728	-	-	-
Equity reserve for credit losses	-	-	-	97	-
Other reserves	-	-	-	(392)	-

1 The majority of investment securities that were classified as available-for-sale under AASB 139 are debt instruments consisting of bonds issued by Government and Semi-Government authorities, residential mortgage backed securities (**RMBS**) as well as investment-graded banking bonds that meet the regulatory requirements of High Quality Liquid Assets (**HQLA**). The Group holds these assets to manage its ongoing liquidity needs and comply with Australian Prudential Regulatory Authority (**APRA**) regulations. Therefore, they meet the business model of both collecting contractual cash flows and selling financial assets and are classified as FVOCI under AASB 9. The existing available-for-sale reserve has been reclassified to a FVOCI reserve.

2 Investment securities classified as held-to-maturity under AASB 139 contain mainly bonds and RMBS that meet the definition of HQLA and are held for regulatory purposes. While sales of these assets were restricted under AASB 139, the Group intends to manage these assets as part of its liquidity reserve and will be both collecting contractual cash flows and selling financial assets and therefore will classify these assets as FVOCI under AASB 9.

3 The Group implemented an ECL model which led to an increase in the collective provision for loans and advances. The impact on financial asset categories other than loans and advances is considered immaterial.

Company	Trading and investment securities $M	Gross loans and advances $M	Provision for impairment on loans and advances $M	Reserves $M	Retained profits $M
Closing balance as at 30 June 2018 under AASB 139	5,697	58,505	128	74	548
Closing balance is comprised of:					
FVTPL (mandatory)	1,639	-	-	-	-
Available-for-sale	3,544	-	-	6	-
Held-to-maturity	514	-	-	-	-
Amortised cost	-	58,505	-	-	-
Equity reserve for credit losses	-	-	-	88	-
Other reserves	-	-	-	(20)	-
Reclassification on 1 July 2018					
From available-for-sale (AASB 139)[1]	(3,544)	-	-	(6)	-
From held-to-maturity (AASB 139)[2]	(514)	-	-	-	-
To FVOCI - debt instrument (AASB 9)[1&2]	4,058	-	-	6	-
Remeasurement on 1 July 2018					
From held-to-maturity at amortised cost (AASB 139) to FVOCI (debt instrument)[2]	10	-	-	7	-
Increase in expected credit losses[3]	-	-	17	9	(21)
Opening balance as at 1 July 2018 under AASB 9	5,707	58,505	145	90	527
Opening balance is comprised of:					
FVTPL (mandatory)	1,639	-	-	-	-
FVOCI - debt instrument	4,068	-	-	13	-
Amortised cost	-	58,505	-	-	-
Equity reserve for credit losses	-	-	-	97	-
Other reserves	-	-	-	(20)	-

1 The majority of investment securities that were classified as available-for-sale under AASB 139 are debt instruments consisting of bonds issued by Government and Semi-Government authorities, RMBS as well as investment-graded banking bonds that meet the regulatory requirements of HQLA. The Group holds these assets to manage its ongoing liquidity needs and comply with APRA regulations. Therefore, they meet the business model of both collecting contractual cash flows and selling financial assets and are classified as FVOCI under AASB 9. The existing available-for-sale reserve has been reclassified to a FVOCI reserve.

2 Investment securities classified as held-to-maturity under AASB 139 contain mainly bonds and RMBS that meet the definition of HQLA and are held for regulatory purposes. While sales of these assets were restricted under AASB 139, the Group intends to manage these assets as part of its liquidity reserve and will be both collecting contractual cash flows and selling financial assets and therefore will classify these assets as FVOCI under AASB 9.

3 The Group implemented an ECL model which led to an increase in the collective provision for loans and advances. The impact on financial asset categories other than loans and advances is considered immaterial.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 was issued in December 2014 and provides a single comprehensive model for revenue recognition based on the satisfaction of performance obligations and additional disclosures about revenue. It replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts*, and related interpretations. The Group has applied AASB 15 from 1 July 2018, however the overall effect of the implementation of AASB 15 was not material to the Group.

2.2 Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Where revisions are made to accounting estimates, any financial impact is recognised in the period in which the estimate is revised.

Significant estimates, judgments and assumptions are discussed in the following notes:

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

— valuation of financial instruments (refer to note 23)

— contingent assets and liabilities (refer to note 30).

3. Dividends

Consolidated and Company	2019 Cents per share[1] / note	2019 $M	2018 Cents per share[1] / note	2018 $M
Dividend payments on ordinary shares				
2018 final dividend (2018: 2017 final dividend)	28	76	67	181
2019 interim dividend (2018: 2018 interim dividend)	46	126	43	117
Total dividends on ordinary shares		202		298
Dividend payments on capital notes				
Issued on 27 May 2019				
June quarter[2]	21	-	-	-
Issued on 5 May 2017				
September quarter	108	4	152	6
December quarter	105	3	102	4
March quarter	107	4	103	4
June quarter	104	4	106	4
Issued on 18 December 2017				
September quarter	100	2	-	-
December quarter	97	2	-	-
March quarter	99	2	57	1
June quarter	96	2	98	2
Issued on 17 December 2012				
September quarter	-	-	111	5
December quarter	-	-	111	5
Total dividends on capital notes		23		31
Total dividends		225		329
Dividends not recognised in the statements of financial position[3]				
Dividends determined since balance date				
2019 final dividend (2018: 2018 final dividend)	61	164	28	76
		164		76

1 Cents per share/note is rounded to the nearest cent.

2 The June 2019 quarter dividend of $72k rounds to $nil in millions.

3 The total 2019 final dividends determined but not recognised in the statements of financial position are estimated based on the total number of ordinary shares on issue as at 30 June 2019. The actual amount recognised in the financial statements for the year ending 30 June 2020 will be based on the actual number of ordinary shares on issue on the record date.

4. Segment reporting

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

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

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

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

The basis of segmentation and basis of measurement of segment results are the same as those applied by the Group in its consolidated financial report for the financial year ended 30 June 2018.

5. Net operating income

5.1 Net interest income

	Consolidated		Company	
	2019 $M	2018 $M	2019 $M	2018 $M
Interest income				
Cash and cash equivalents	5	6	5	6
Receivables due from other banks	1	3	1	3
Trading securities	29	27	29	27
Investment securities[1]	127	143	127	143
Loans and advances	2,385	2,349	2,373	2,335
Total interest income	2,547	2,528	2,535	2,514
Interest expense				
Deposits and short-term borrowings:				
at amortised cost	(833)	(822)	(839)	(828)
designated at fair value through profit and loss	(48)	(39)	(48)	(39)
Derivatives	(27)	(50)	(27)	(50)
Securitisation liabilities	(135)	(119)	-	-
Debt issues	(312)	(284)	(312)	(284)
Subordinated notes	(29)	(33)	(29)	(33)
Total interest expense	(1,384)	(1,347)	(1,255)	(1,234)
Net interest income	1,163	1,181	1,280	1,280

1 Investment securities were classified as available-for-sale and held-to-maturity for the financial year ended 30 June 2018 and the entire balance transitioned into fair value through other comprehensive income for the financial year ended 30 June 2019.

5.2 Other operating income

	Consolidated 2019 $M	Consolidated 2018 $M	Company 2019 $M	Company 2018 $M
Banking fee and commission income	176	182	176	182
Banking fee and commission expense	(141)	(140)	(141)	(140)
Net banking fee and commission income	35	42	35	42
Net gains or losses on:				
Trading securities at fair value through profit and loss	2	5	2	5
Derivative financial instruments at fair value through profit and loss	12	5	12	5
Financial liabilities at fair value through profit and loss	(1)	-	(1)	-
Securitisation and covered bond income	-	-	264	276
Other fees and commissions	-	-	32	31
Dividend income	-	-	10	12
Other revenue	6	8	14	7
	19	18	333	336
Total other operating income	54	60	368	378

6. Operating expenses

	Consolidated 2019 $M	Consolidated 2018 $M	Company 2019 $M	Company 2018 $M
Wages, salaries and other staff costs	354	365	354	365
Occupancy and equipment expenses	60	69	60	69
Information technology and communication	67	60	67	60
Depreciation and amortisation	64	58	64	58
Securitisation and covered bond expenses	-	-	431	427
Other expenses	151	168	150	168
Total operating expenses[1]	696	720	1,126	1,147

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

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

7. Income tax

7.1 Income tax expense

	Consolidated 2019 $M	Consolidated 2018 $M	Company 2019 $M	Company 2018 $M
Reconciliation of prima facie to actual income tax expense:				
Profit before income tax	508	494	510	487
Prima facie domestic corporate tax rate of 30% (2018: 30%)	153	148	153	146
Tax effect of amounts not assessable in calculating taxable income:				
Intercompany dividend elimination	-	-	(3)	(4)
Total income tax expense on pre-tax profit	153	148	150	142
Effective tax rate	30.2%	30.0%	29.4%	29.2%
Income tax expense recognised in profit consists of:				
Current tax expense				
Current tax movement	152	144	149	137
Adjustments for prior financial years	1	(1)	1	-
Total current tax expense	153	143	150	137
Deferred tax expense				
Origination and reversal of temporary differences	1	4	1	5
Adjustments for prior financial years	(1)	1	(1)	-
Total deferred tax expense	-	5	-	5
Total income tax expense	153	148	150	142

7.2 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Deferred tax assets 2019 $M	Deferred tax assets 2018 $M	Deferred tax liabilities 2019 $M	Deferred tax liabilities 2018 $M	Net 2019 $M	Net 2018 $M
Trading securities and investment securities	-	5	5	-	(5)	5
Provision for impairment on financial assets	44	40	-	-	44	40
Other items	3	-	-	-	3	-
Deferred tax assets and liabilities	47	45	5	-	42	45
Set-off of tax	(5)	-	(5)	-	-	-
Net deferred tax assets	42	45	-	-	42	45

Company	Deferred tax assets 2019 $M	Deferred tax assets 2018 $M	Deferred tax liabilities 2019 $M	Deferred tax liabilities 2018 $M	Net 2019 $M	Net 2018 $M
Trading securities and investment securities	-	5	5	-	(5)	5
Provision for impairment on financial assets	42	40	-	-	42	40
Other items	3	-	-	-	3	-
Deferred tax assets and liabilities	45	45	5	-	40	45
Set-off of tax	(5)	-	(5)	-	-	-
Net deferred tax assets	40	45	-	-	40	45

Movement in deferred tax balances during the financial year:

Consolidated	2019 Deferred tax assets $M	2018 Deferred tax assets $M	2019 Deferred tax liabilities $M	2018 Deferred tax liabilities $M
Balance at the beginning of the financial year	45	53	-	2
Movement recognised in profit or loss	-	(6)	-	(1)
Movement recognised in other comprehensive income	-	-	7	1
Reclassifications[1]	(3)	(2)	(7)	(2)
Balance at the end of the financial year	42	45	-	-

Company	2019 Deferred tax assets $M	2018 Deferred tax assets $M	2019 Deferred tax liabilities $M	2018 Deferred tax liabilities $M
Balance at the beginning of the financial year	45	50	-	-
Movement recognised in profit or loss	-	(5)	-	-
Movement recognised in other comprehensive income	-	-	7	1
Reclassifications[1]	(5)	-	(7)	(1)
Balance at the end of the financial year	40	45	-	-

1 Reclassifications for the 2019 financial year include the deferred tax impact of the AASB 9 transitional adjustments as set out in note 2.1.

7.3 Tax consolidation

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

8. Cash and cash equivalents

	Consolidated 2019 $M	Consolidated 2018 $M	Company 2019 $M	Company 2018 $M
Cash at bank	57	57	57	55
Reverse repurchase agreements maturing in less than three months	492	251	492	251
Other money market placements	89	198	89	198
Total cash and cash equivalents	638	506	638	504

9. Receivables due from other banks

	Consolidated		Company	
	2019 $M	2018 $M	2019 $M	2018 $M
Cash collateral[1]	98	40	98	40
Other receivables due from financial institutions	401	434	401	434
Total receivables due from other banks - current	499	474	499	474

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

10. Trading and investment securities

	Consolidated		Company	
	2019 $M	2018 $M	2019 $M	2018 $M
Trading securities				
Interest-bearing securities: Bank bills, certificates of deposits and other negotiable securities – current	1,227	1,639	1,227	1,639
Investment securities				
Financial assets at FVOCI				
Interest-bearing securities	3,954	-	3,954	-
Available-for-sale financial assets at fair value				
Interest-bearing securities	-	3,544	-	3,544
Held-to-maturity financial assets				
Interest-bearing securities	-	514	-	514
Investment at cost				
Shares in subsidiaries	-	-	-	1
Total investment securities	3,954	4,058	3,954	4,059
Current	87	96	87	96
Non-current	3,867	3,962	3,867	3,963
Total investment securities	3,954	4,058	3,954	4,059

11. Derivative financial instruments

Consolidated and Company	2019 Asset $M	2019 Liability $M	2018 Asset $M	2018 Liability $M
Interest rate				
Non-hedge accounting	45	41	25	24
Hedge accounting	288	362	71	110
	333	403	96	134
Interest rate and foreign exchange				
Non-hedge accounting	2	2	-	-
Hedge accounting	227	-	54	21
	229	2	54	21
Foreign exchange				
Non-hedge accounting	31	4	74	3
	31	4	74	3
Total derivative exposures				
Non-hedge accounting	78	47	99	27
Hedge accounting	515	362	125	131
	593	409	224	158

Derivatives are used by the Group to manage interest rate and foreign exchange risk. Non-hedge accounting derivatives are those derivatives which are either not designated in a qualifying hedge accounting relationship, or acquired or incurred principally for the purpose of selling or repurchasing in the near term, or held as part of a portfolio that is managed together for short-term profit or position taking. Hedge accounting derivatives are those derivatives that are designated in a qualifying hedge accounting relationship. Refer to note 31 for the Group's accounting policy for derivatives and hedge accounting.

Derivatives used primarily include over-the-counter (**OTC**) interest rate swaps, cross currency swaps, forward foreign exchange contracts, options, and exchange traded interest rate futures.

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

As at 30 June 2019 there was no significant counterparty exposure to any one single entity, other than normal clearing house exposures associated with dealings through recognised exchanges (2018: none).

The Group uses forward foreign exchange contracts to economically hedge its exposure to foreign exchange risk arising from its US dollar commercial paper portfolio (within Deposits and short-term borrowings, refer to note 14). These forward contracts are not designated in a hedge accounting relationship.

11.1 Derivative financial instruments – hedge accounting

Type of hedge	Fair value hedge	Cash flow hedge
Objective	To hedge changes in fair value of financial assets and liabilities arising from interest rate risk.	To hedge variability in cash flows from recognised financial assets and liabilities arising from interest rate and foreign currency risk.
Hedged risk	Interest rate risk	Interest rate risk Foreign exchange risk
Hedging instruments	Pay fixed / receive variable interest rate swaps Receive fixed / pay variable interest rate swaps Receive fixed foreign currency / pay variable local currency cross currency swaps	Receive fixed / pay variable interest rate swaps Pay fixed / receive variable interest rate swaps Receive fixed foreign currency / pay variable local currency cross currency swaps
Hedged item	Fixed interest financial assets and liabilities	Variable interest financial assets and liabilities
Economic Relationship Test	Matched terms	Regression analysis
Hedge effectiveness testing	Cumulative dollar offset Hedge ratio 1:1	Cumulative dollar offset Hedge ratio 1:1
Potential sources of ineffectiveness	Mainly mismatches in terms of the hedged item and the hedging instrument.	Mainly mismatches in terms of the hedged item and the hedging instrument as well as prepayment risk.

Hedging of fluctuations in interest rates

The Group seeks to minimise volatility in net interest income through the use of interest rate derivatives, primarily vanilla interest rate swaps. The aggregate earnings exposure to interest rates is managed within Board-approved risk limits. At reporting date, there are 25 (2018: 20) interest rate swaps designated in fair value hedges to hedge the Group's exposure to changes in the fair value of fixed rate investment securities caused by movements in interest rates. All other interest rate swaps designated as hedges are cash flow hedges. Interest rate swaps designated in cash flow hedges hedge the Group's exposure to variability of cash flows on variable rate financial assets and liabilities caused by movements in interest rates.

Hedging of fluctuations in foreign exchange rates

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

The following table shows the maturity profile for hedging instruments by notional amount, reported based on their contractual maturity.

Consolidated and Company	2019 Notional 0 to 12 months $M	2019 Notional 1 to 5 years $M	2019 Notional Over 5 years $M	2019 Notional Total $M	2018 Notional 0 to 12 months $M	2018 Notional 1 to 5 years $M	2018 Notional Over 5 years $M	2018 Notional Total $M
Interest rate risk								
Fair value hedge	-	620	446	1,066	-	530	391	921
Cash flow hedge	13,396	25,149	625	39,170	11,376	29,028	771	41,175
Interest rate and foreign exchange								
Fair value and cash flow hedge	1,082	2,231	-	3,313	663	2,262	-	2,925

The table below shows the average executed price or rate of the hedging instrument for interest rate exposures:

Consolidated and Company	2019	2018
Interest rate swaps:		
AUD Average fixed interest rate		
Hedging investment securities	3.61%	3.77%
Hedging loans and advances	2.20%	2.28%
Hedging deposits and short-term borrowings	2.07%	2.26%
Cross currency swaps:		
Average AUD/USD exchange rate	0.7480	0.7652
Average fixed interest rate USD	2.68%	2.39%

The following table shows amounts related to designated hedging instruments, including the fair value changes for the period used as the basis for calculating hedge ineffectiveness.

Consolidated and Company	Carrying amount assets $M	Carrying amount liabilities $M	Gains (losses) on hedging instruments $M	Gains (losses) on hedged items attributable to hedged risk $M	Net hedge ineffectiveness in profit or (loss)[1] $M
2019					
Interest rate risk					
Fair value hedge - interest rate swaps	-	92	(52)	52	-
Cash flow hedge - interest rate swaps	288	270	29	(28)	-
Interest rate and foreign exchange risk					
Fair value and cash flow hedge - cross currency swaps	227	-	190	(190)	-
Total	515	362	167	(166)	-
2018					
Interest rate risk					
Fair value hedge - interest rate swaps	-	39	8	(8)	-
Cash flow hedge - interest rate swaps	71	71	15	(14)	-
Interest rate and foreign exchange risk					
Fair value and cash flow hedge - cross currency swaps	54	21	115	(115)	-
Total	125	131	138	(137)	-

1. Hedge ineffectiveness is recognised as part of 'Other operating income' in the statements of comprehensive income (**SOCI**).

The following table shows amounts relating to designated hedged items:

				Amounts reclassified from reserves to profit or (loss)[2] as:	
Consolidated and Company	**Carrying amount $M**	**Accumulated fair value hedge adjustments[1] $M**	**Accumulated balances in reserves[3] $M**	**Hedged cash flows will no longer occur $M**	**Hedged item has affected profit or loss $M**
2019					
Interest rate risk					
Fair value hedge					
Investment securities	1,069	-	n/a	n/a	n/a
Cash flow hedge					
Loans and advances	25,475	n/a	558	-	-
Deposits and short-term borrowings	28,716	n/a	(565)	-	-
Interest rate and foreign exchange risk					
Fair value and cash flow hedge					
Debt issues	3,538	12	(2)	-	-
2018					
Interest rate risk					
Fair value hedge					
Investment securities	968	-	n/a	n/a	n/a
Cash flow hedge					
Loans and advances	29,756	n/a	(4)	-	-
Deposits and short-term borrowings	31,240	n/a	(29)	-	-
Interest rate and foreign exchange risk					
Fair value and cash flow hedge					
Debt issues	2,954	(74)	5	-	-

1. The accumulated amount of fair value hedge adjustments remaining on the statements of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is $nil (2018: $nil).

2. Amounts reclassified from reserves to profit or loss are included as part of 'Other operating income' in the SOCI.

3. Balances presented in the table are gross of tax. There is $nil (2018: $nil) remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

12. Loans and advances

	Note	Consolidated 2019 $M	Consolidated 2018 $M	Company 2019 $M	Company 2018 $M
Housing loans		47,811	47,604	47,811	47,604
Consumer loans		149	175	149	175
Retail loans		47,960	47,779	47,960	47,779
Business loans		11,333	10,937	11,146	10,714
Other lending		3	12	3	12
Non-retail loans		11,336	10,949	11,149	10,726
Gross loans and advances		59,296	58,728	59,109	58,505
Provision for impairment	13	(142)	(130)	(136)	(128)
Net loans and advances		59,154	58,598	58,973	58,377
Current		11,127	10,831	11,099	10,801
Non-current		48,027	47,767	47,874	47,576
Net loans and advances		59,154	58,598	58,973	58,377

13. Provision for impairment on financial assets

13.1 Reconciliation of provision for impairment on financial assets

Reconciliation of provision for impairment

The table below shows the reconciliation of the new ECL for the financial year ended 30 June 2019. Please refer to note 31.11 for the definition of each stage.

	Collective provision				
Consolidated	**Stage 1 - 12-month ECL $M**	**Stage 2 - Lifetime ECL $M**	**Stage 3 - Lifetime ECL $M**	**Stage 3 - Specific provision $M**	**Total $M**
Total provision for impairment on loans and advances as at 1 July 2018[1]	37	37	29	39	142
Transfers:					
Transfer to stage 1	8	(6)	(2)	-	-
Transfer to stage 2	(2)	6	(4)	-	-
Transfer to stage 3	-	(4)	1	3	-
New and increased provisions	17	20	19	13	69
Write-back of provisions no longer required	(24)	(17)	(11)	(12)	(64)
Specific provisions written off	-	-	-	(8)	(8)
Unwind of discount	-	-	-	(4)	(4)
Total provision for impairment on loans and advances as at 30 June 2019	36	36	32	31	135
Total provision for impairment on commitments and guarantees as at 1 July 2018[1]	7	1	-	-	8
New and increased provisions	3	-	-	-	3
Write-back of provisions no longer required	(4)	-	-	-	(4)
Total provision for impairment on commitments and guarantees as at 30 June 2019	6	1	-	-	7
Total provision for impairment as at 30 June 2019	42	37	32	31	142

1 The opening balance at 1 July 2018 presented in the table above is inclusive of the $20m transitional adjustment detailed in note 2.1.

Company	Collective provision Stage 1 - 12-month ECL $M	Stage 2 - Lifetime ECL $M	Stage 3 - Lifetime ECL $M	Stage 3 - Specific provision $M	Total $M
Total provision for impairment on loans and advances as at 1 July 2018[1]	34	36	29	38	137
Transfers:	-	-	-	-	
Transfer to stage 1	8	(6)	(2)	-	-
Transfer to stage 2	(2)	6	(4)	-	-
Transfer to stage 3	-	(4)	1	3	-
New and increased provisions	16	18	18	13	65
Write-back of provisions no longer required	(23)	(16)	(11)	(11)	(61)
Specific provisions written off	-	-	-	(8)	(8)
Unwind of discount	-	-	-	(4)	(4)
Total provision for impairment on loans and advances as at 30 June 2019	33	34	31	31	129
Total provision for impairment on commitments and guarantees as at 1 July 2018[1]	7	1	-	-	8
New and increased provisions	3	-	-	-	3
Write-back of provisions no longer required	(4)	-	-	-	(4)
Total provision for impairment on commitments and guarantees as at 30 June 2019	6	1	-	-	7
Total provision for impairment as at 30 June 2019	39	35	31	31	136

1 The opening balance at 1 July 2018 presented in the table above is inclusive of the $17m transitional adjustment detailed in note 2.1.

As stated in note 2, the 30 June 2018 prior financial year comparatives have not been restated and are shown below. Note 2.1 provides a reconciliation of the impact on the transition to AASB 9.

	Consolidated 2018 $M	Company 2018 $M
Collective provision		
Balance at the beginning of the financial year	96	95
Write-back against impairment losses	(5)	(5)
Balance at the end of the financial year	91	90
Specific provision		
Balance at the beginning of the financial year	44	42
New and increased individual provisioning	37	33
Write-back of provisions no longer required	(15)	(14)
Impaired provision written off	(23)	(19)
Unwind of discount	(4)	(4)
Balance at the end of the financial year	39	38
Total provision for impairment	130	128

Reconciliation of gross carrying amount of loans and advances

The following table shows the effect of movements in the gross carrying amount of loans and advances in different stages during the financial year ended 30 June 2019.

Consolidated	Stage 1 - 12-month ECL $M	Stage 2 - Lifetime ECL $M	Stage 3 - Lifetime collective ECL $M	Stage 3 - Specific provision $M	Total $M
Gross carrying amount as at 1 July 2018	56,130	1,907	568	123	58,728
Transfers:					
Transfer to stage 1	728	(644)	(84)	-	-
Transfer to stage 2	(1,110)	1,225	(115)	-	-
Transfer to stage 3	(221)	(218)	400	39	-
New loans and advances originated or purchased	8,471	-	-	-	8,471
Loans and advances derecognised during the period including write-offs	(7,367)	(365)	(131)	(40)	(7,903)
Gross carrying amount as at 30 June 2019	56,631	1,905	638	122	59,296
Provision for impairment	(42)	(37)	(32)	(31)	(142)
Net carrying amount as at 30 June 2019	56,589	1,868	606	91	59,154

Company	Stage 1 - 12-month ECL $M	Stage 2 - Lifetime ECL $M	Stage 3 - Lifetime collective ECL $M	Stage 3 - Specific provision $M	Total $M
Gross carrying amount as at 1 July 2018	55,919	1,896	568	122	58,505
Transfers:					
Transfer to stage 1	727	(643)	(84)	-	-
Transfer to stage 2	(1,102)	1,217	(115)	-	-
Transfer to stage 3	(219)	(217)	397	39	-
New loans and advances originated or purchased	8,409	-	-	-	8,409
Loans and advances derecognised during the period including write-offs	(7,278)	(358)	(130)	(39)	(7,805)
Gross carrying amount as at 30 June 2019	56,456	1,895	636	122	59,109
Provision for impairment	(39)	(35)	(31)	(31)	(136)
Net carrying amount as at 30 June 2019	56,417	1,860	605	91	58,973

13.2 Impairment loss on financial assets

	Consolidated		Company	
	2019 $M	2018 $M	2019 $M	2018 $M
Decrease in collective provision for impairment	-	(5)	(1)	(5)
Increase in specific provision for impairment	5	22	5	19
Bad debts written off	9	13	9	13
Bad debts recovered	(1)	(3)	(1)	(3)
Total impairment loss on loans and advances	13	27	12	24

The principal amount outstanding on loans and advances that were written off and are still subject to enforcement activity at the end of the reporting period is $2 million.

14. Deposits and short-term borrowings

	Consolidated		Company	
	2019 $M	2018 $M	2019 $M	2018 $M
Financial liabilities at amortised cost				
Call deposits	22,502	20,289	22,522	20,953
Term deposits	16,401	18,272	16,401	18,272
Short-term securities issued	5,376	5,442	5,376	5,442
Total deposits and short-term borrowings at amortised cost	44,279	44,003	44,299	44,667
Financial liabilities designated at fair value through profit or loss				
Offshore commercial papers	2,272	2,040	2,272	2,040
Total deposits and short-term borrowings	46,551	46,043	46,571	46,707
Current	46,320	45,801	46,340	46,465
Non-current	231	242	231	242
Total deposits and short-term borrowings	46,551	46,043	46,571	46,707

Deposits and short-term borrowings outstanding at 30 June 2019 of $302 million (2018: $301 million) have been obtained under repurchase agreements with the Reserve Bank of Australia and disclosed within the above category of ‘Short-term securities issued’.

The Group has elected to recognise its US Commercial Paper portfolio at fair value through the profit or loss on the basis that it is economically hedged by forward foreign exchange contracts. Both the changes in the fair value of the forward foreign exchange contracts and the debt are recognised in profit or loss. However, the portion of the change in the fair value of the debts attributable to changes in our own credit risk is recognised in other comprehensive income, with no recycling, unless such treatment would create or enlarge an accounting mismatch in profit or loss. The fair value of forward foreign exchange contracts used as economic hedges of monetary liabilities in foreign currencies as at 30 June 2019 is a $27 million asset (2018: $72 million asset).

The contractual amount payable on financial liabilities designated at fair value through profit or loss at maturity is $2,286 million (2018: $2,065 million).

Interest expense of $48 million (2018: $39 million) on deposits and short-term borrowings designated at fair value through profit or loss was recognised in the financial year.

Consolidated net losses of $1 million (2018: $nil million) on financial liabilities designated at fair value through profit or loss are recognised in profit or loss.

15. Payables and other liabilities

	Consolidated		Company	
	2019 $M	2018 $M	2019 $M	2018 $M
Accrued interest payable	229	249	224	242
Trade creditors and accrued expenses	182	147	195	159
Other liabilities	13	27	13	13
Total payables and other liabilities - current	424	423	432	414

16. Debt issues

		Consolidated		Company	
	Note	2019 $M	2018 $M	2019 $M	2018 $M
Financial liabilities at amortised cost					
Offshore borrowings		3,538	2,954	3,538	2,954
Domestic borrowings		4,032	4,863	4,032	4,863
Total unsecured debt issues		7,570	7,817	7,570	7,817
Covered bonds	23.3	2,788	2,037	2,788	2,037
Total secured debt issues		2,788	2,037	2,788	2,037
		10,358	9,854	10,358	9,854
Current		2,920	2,835	2,920	2,835
Non-current		7,438	7,019	7,438	7,019
Total debt issues		10,358	9,854	10,358	9,854

17. Subordinated notes

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

Consolidated and Company	2019 $M	2018 $M
Tier 2 Subordinated notes		
Basel III fully compliant subordinated notes		
$AUD 670 million Floating Rate Notes	-	670
$AUD 600 million Floating Rate Notes	600	-
Total Basel III fully compliant subordinated notes	600	670
Basel III transitional subordinated notes		
$AUD 72 million Floating Rate Notes[1]	72	72
Total Basel III transitional subordinated notes	72	72
Total Tier 2 Subordinated Notes[2]	672	742
Current	-	-
Non-current	672	742
Total subordinated notes	672	742

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

2 Total liability in relation to interest payment accrued for the Group to make payments under the subordinated notes as at the end of the financial year is $2 million (2018: $4 million). It is disclosed within the statements of financial position category of 'Payables and other liabilities'.

Consolidated and Company	Margin above 90 day BBSW	Maturity Date	Optional redemption date	Issue date	2019 Number on issue	2018 Number on issue
$AUD 670 million Floating Rate Notes	285 bps	22 Nov 2023	22 Nov 2018	14 Jun 2013	-	6,700,000
$AUD 600 million Floating Rate Notes	215 bps	5 Dec 2028	5 Dec 2023	22 Nov 2018	60,000	-
$AUD 72 million Floating Rate Notes	75 bps	n/a	n/a	17 Dec 1998	715,383	715,383

On 22 November 2018, the Company redeemed $670 million of Tier 2 subordinated notes. On the same day, the Company issued $600 million of subordinated notes for $10,000 per note. They are fully paid, unsecured, cumulative subordinated notes, with a maturity date of 5 December 2028, with the option to redeem the notes on the early redemption date of 5 December 2023, subject to APRA approval.

Basel III fully compliant subordinated notes

The subordinated notes pay quarterly, cumulative deferrable interest payments at a floating rate equal to the sum of the three-month bank bill swap rate and the margin.

The issuer has the option to redeem the instrument on the optional redemption date and for certain tax and regulatory events (in each case subject to APRA's prior written approval).

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

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

Basel III transitional subordinated notes

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

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

18. Share capital

	2019		2018	
Consolidated and Company	**No of shares**	**$M**	**No of shares**	**$M**
Balance at the beginning of the financial year	271,467,584	2,648	271,467,584	2,648
Balance at the end of the financial year	271,467,584	2,648	271,467,584	2,648

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

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

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

19. Capital notes

The following table shows capital notes at cost and categorised by type, class and instrument under APRA and Bank Basel III reporting standards. These instruments have been issued by the Company.

Consolidated and Company	Margin above 90 day BBSW	2019 Number on issue	2019 $M	2018 Number on issue	2018 $M
Issued on 5 May 2017	410 bps	3,750,000	375	3,750,000	375
Issued on 18 December 2017	365 bps	1,750,000	175	1,750,000	175
Issued on 27 May 2019	365 bps	350,000	35	-	-
Balance at the end of the financial		5,850,000	585	5,500,000	550

Capital notes are eligible Additional Tier 1 capital instruments under Basel III. They are fully paid, perpetual, subordinated, unsecured securities and issued to the ultimate parent entity, Suncorp Group Limited.

Capital notes pay a distribution that are floating rate, discretionary, non-cumulative, and scheduled to be paid quarterly, at the Company's discretion. They are calculated based on the sum of the three-month bank bill rate and the margin, adjusted for the corporate tax rate applicable to the ultimate Parent Company.

If APRA determines that a non-viability event has occurred in relation to the Company, all (or in some circumstances, some) of the instruments will be written off.

In the event of the winding up of the Company, the rights of the holders will rank equally, and in priority to the rights of the ordinary shareholders only.

20. Reserves

Consolidated	Equity reserve for credit losses $M	Hedging reserve $M	FVOCI reserve[1] $M	Common control reserve $M	Total reserves $M
Balance as at 30 June 2017	82	(31)	14	(372)	(307)
Transfer to retained profits	6	-	-	-	6
Amount recognised in equity	-	16	(14)	-	2
Amount transferred from equity to profit or loss	-	-	2	-	2
Income tax (expense) benefit	-	(5)	4	-	(1)
Balance as at 30 June 2018	88	(20)	6	(372)	(298)
Impact on initial application of AASB 9 (net of tax)	9	-	7	-	16
Transfer from retained profits	7	-	-	-	7
Amount recognised in equity	-	20	3	-	23
Income tax expense	-	(6)	(1)	-	(7)
Balance as at 30 June 2019	104	(6)	15	(372)	(259)

Company	Equity reserve for credit losses $M	Hedging reserve $M	FVOCI reserve[1] $M	Common control reserve $M	Total reserves $M
Balance as at 30 June 2017	82	(31)	14	-	65
Transfer to retained profits	6	-	-	-	6
Amount recognised in equity	-	16	(14)	-	2
Amount transferred from equity to profit or loss	-	-	2	-	2
Income tax (expense) benefit	-	(5)	4	-	(1)
Balance as at 30 June 2018	88	(20)	6	-	74
Impact on initial application of AASB 9 (net of tax)	9	-	7	-	16
Transfer from retained profits	7	-	-	-	7
Amount recognised in equity	-	20	3	-	23
Income tax expense	-	(6)	(1)	-	(7)
Balance as at 30 June 2019	104	(6)	15	-	113

1 On initial application of AASB 9 from 1 July 2018, the available-for-sale assets including the corresponding reserve have been reclassified to investment securities measured at FVOCI with a corresponding FVOCI reserve (refer to Note 2.1).

Equity reserve for credit losses

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

Hedging reserve

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

Fair value through other comprehensive income reserve

The FVOCI reserve represents the cumulative net change in the fair value of financial assets classified as available-for-sale (up to 30 June 2018) or FVOCI (from 1 July 2018) until the asset is derecognised or impaired.

Common control reserve

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

21. Group capital management

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

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

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

For regulatory purposes, capital is classified as follows:

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

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

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

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

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

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

These risks are quantified and then aggregated to determine the RWA under the prudential standards.

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

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

21.1 Capital adequacy

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

	2019 $M	2018 $M
Tier 1 Capital		
Common Equity Tier 1 Capital		
Ordinary share capital	2,648	2,648
Retained profits	690	580
Accumulated other comprehensive income	8	(14)
	3,346	3,214
Regulatory adjustments to Common Equity Tier 1 Capital		
Goodwill	(21)	(21)
Cash-flow hedge reserve	6	20
Deferred tax assets	(39)	(37)
Capitalised expenses	(214)	(238)
Other regulatory adjustments	(1)	(3)
	(269)	(279)
Common Equity Tier 1 Capital	3,077	2,935
Additional Tier 1 Capital		
Eligible hybrid capital	585	550
Total Tier 1 Capital	3,662	3,485
Tier 2 Capital		
APRA general reserve for credit losses	146	158
Eligible hybrid capital	600	670
Ineligible hybrid capital[1]	57	72
Total Tier 2 Capital	803	900
Total Capital	4,465	4,385
Total assessed risk weighted assets	33,253	32,563
Risk weighted capital ratios	%	%
Common Equity Tier 1	9.25	9.01
Total Tier 1	11.01	10.70
Total Tier 2	2.42	2.76
Total risk weighted capital ratio	13.43	13.46

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

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

	Carrying amount		Risk weighted balance	
	2019 $M	2018 $M	2019 $M	2018 $M
On-balance sheet assets				
Cash items	405	479	2	8
Claims on Australian and foreign governments	2,357	2,365	-	-
Claims on central banks, international banking agencies, regional developments banks, ADIs and overseas banks	966	933	297	233
Claims on securitisation exposures	1,213	1,242	242	246
Claims secured against eligible residential mortgages	44,512	43,343	16,356	16,039
Past due claims	639	623	528	511
Other retail assets	229	268	222	259
Corporate	9,945	9,571	9,935	9,559
Other assets and claims	386	379	386	379
Total banking assets	60,652	59,203	27,968	27,234

	Notional amount	Credit equivalent	Risk weighted balance	
	2019 $M	2019 $M	2019 $M	2018 $M
Off-balance sheet positions				
Guarantees	276	276	191	184
Commitments to provide loans and advances	8,576	2,150	1,259	1,363
Foreign exchange contracts	5,927	110	24	31
Interest rate contracts	52,623	99	47	26
Securitisation exposures	3,696	152	30	36
CVA capital charge	-	-	114	128
Total off-balance sheet positions	71,098	2,787	1,665	1,768
Market risk capital charge			90	88
Operational risk capital charge			3,530	3,473
Total off-balance sheet positions			1,665	1,768
Total on-balance sheet credit risk weighted assets			27,968	27,234
Total assessed risk			33,253	32,563

22. Notes to the statements of cash flows

22.1 Reconciliation of cash flows from operating activities

	Consolidated		Company	
	2019 $M	2018 $M	2019 $M	2018 $M
Profit for the financial year	355	346	360	345
Non-cash items				
Impairment loss on financial assets	13	27	12	24
Change in fair value relating to investing and financing activities	(13)	(10)	(13)	(10)
Foreign exchange movement on short-term borrowings	(124)	(31)	(124)	(31)
Other non-cash items	28	(5)	27	(2)
Change in operating assets and liabilities				
Net movement in tax assets and liabilities	(18)	1	(15)	1
Decrease (increase) in trading securities	412	(119)	412	(119)
Increase in loans and advances	(616)	(3,426)	(443)	(3,473)
Net movement in balances with related parties	18	(85)	(546)	1,086
Decrease (increase) in other assets	8	(30)	2	(31)
Increase (decrease) in deposits and short-term borrowings	508	616	(136)	1,262
Increase in payables and other liabilities	1	66	18	62
Net cash from (used in) operating activities	572	(2,650)	(446)	(886)

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

	Consolidated		Company	
	2019 $M	2018 $M	2019 $M	2018 $M
Cash and cash equivalents at the end of the financial year in the statements of cash flows is represented by the following line items in the statements of financial position:				
Cash and cash equivalents	638	506	638	504
Receivables due from other banks	499	474	499	474
Payables due to other banks[1]	(353)	(148)	(353)	(148)
	784	832	784	830

1 Includes cash received as collateral to support derivative asset positions of $293 million (2018: $103 million) in accordance with standard ISDA agreement.

22.3 Changes in liabilities arising from financing activities

	Consolidated			Company		
	Securitisation liabilities $M	Debt issues $M	Subordinated notes $M	Securitisation liabilities $M	Debt issues $M	Subordinated notes $M
Balance as at 1 July 2017	3,088	9,216	742	-	9,216	742
Cash flows						
Proceeds	2,750	2,547	-	-	2,547	-
Repayments	(987)	(1,972)	-	-	(1,972)	-
Transaction costs	(3)	-	-	-	-	-
Non-cash changes						
Fair value changes	-	(55)	-	-	(55)	-
Foreign exchange movement	-	118	-	-	118	-
Balance as at 30 June 2018	4,848	9,854	742	-	9,854	742
Cash flows						
Proceeds	-	3,117	-	-	3,117	-
Repayments	(1,020)	(2,883)	(70)	-	(2,883)	(70)
Transaction costs	-	(5)	-	-	(5)	-
Non-cash changes						
Fair value changes	-	86	-	-	86	-
Foreign exchange movement	-	181	-	-	181	-
Other movements	3	8	-	-	8	-
Balance as at 30 June 2019	3,831	10,358	672	-	10,358	672

22.4 Financial arrangements

	2019		2018	
Consolidated and Company	Program limit $M	Undrawn $M	Program limit $M	Undrawn $M
The Group had the following debt programme available at the end of the financial year:				
$USD 5 billion Global Covered Bond Programme	7,130	4,340	6,765	4,715
$USD 15 billion Euro Medium Term Notes Program and Euro Commercial Paper	21,389	21,389	20,295	20,295
$USD 5 billion United States Commercial Paper Program	7,130	4,844	6,765	4,771
$USD 15 billion U.S. Medium Term Notes Program	21,389	17,860	20,295	17,517
AUD Transferable Certificate of Deposit Program	10,000	5,957	10,000	4,923
AUD Negotiable Certificates of Deposit	10,000	5,080	-	-
	77,038	59,470	64,120	52,221

23. Financial instruments

23.1 Fair value of financial instruments

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

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

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

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

Financial assets and liabilities measured at fair value

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

	2019				2018			
Consolidated	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**Total $M**	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**Total $M**
Financial assets								
Trading securities	-	1,227	-	1,227	-	1,639	-	1,639
Investment securities[1]	-	3,954	-	3,954	-	3,544	-	3,544
Derivatives	1	592	-	593	2	222	-	224
	1	5,773	-	5,774	2	5,405	-	5,407
Financial liabilities								
Offshore commercial papers[2]	-	2,272	-	2,272	-	2,040	-	2,040
Derivatives	1	408	-	409	-	158	-	158
	1	2,680	-	2,681	-	2,198	-	2,198

	2019				2018			
Company	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**Total $M**	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**Total $M**
Financial assets								
Trading securities	-	1,227	-	1,227	-	1,639	-	1,639
Investment securities[1]	-	3,954	-	3,954	-	3,544	-	3,544
Derivatives	1	592	-	593	2	222	-	224
	1	5,773	-	5,774	2	5,405	-	5,407
Financial liabilities								
Offshore commercial papers[2]	-	2,272	-	2,272	-	2,040	-	2,040
Derivatives	1	408	-	409	-	158	-	158
	1	2,680	-	2,681	-	2,198	-	2,198

1 The 30 June 2018 comparatives relate to investment securities that were classified as available-for-sale under AASB 139.

2 Designated as financial liabilities at fair value through profit or loss. Disclosed within the statements of financial position category of 'Deposits and short-term borrowings'.

There have been no transfers between Level 1 and Level 2 and no transfers into or out of Level 3 during the 2019 and 2018 financial years.

Financial assets and liabilities not measured at fair value

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

Consolidated	Note	Carrying value $M	Fair value Level 1 $M	Level 2 $M	Level 3 $M	Total $M
2019						
Financial assets						
Loans and advances	12	59,154	-	-	59,325	59,325
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	44,279	-	44,355	-	44,355
Securitisation liabilities	23.3	3,831	-	3,840	-	3,840
Debt issues	16	10,358	-	10,499	-	10,499
Subordinated notes	17	672	-	664	-	664
2018						
Financial assets						
Held-to-maturity investments[1]	10	514	-	524	-	524
Loans and advances	12	58,598	-	-	58,609	58,609
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	44,003	-	44,005	-	44,005
Securitisation liabilities	23.3	4,848	-	4,877	-	4,877
Debt issues	16	9,854	-	9,919	-	9,919
Subordinated notes	17	742	-	733	-	733

Company	Note	Carrying value $M	Fair value Level 1 $M	Level 2 $M	Level 3 $M	Total $M
2019						
Financial assets						
Loans and advances	12	58,973	-	-	59,141	59,141
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	44,299	-	44,375	-	44,375
Debt issues	16	10,358	-	10,499	-	10,499
Subordinated notes	17	672	-	664	-	664
2018						
Financial assets						
Held-to-maturity investments[1]	10	514	-	524	-	524
Loans and advances	12	58,377	-	-	58,389	58,389
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	44,667	-	44,669	-	44,669
Debt issues	16	9,854	-	9,919	-	9,919
Subordinated notes	17	742	-	733	-	733

1 Under AASB 9 and from 1 July 2018, held-to-maturity investment securities previously measured at amortised cost are measured at FVOCI.

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

Financial assets

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

Financial liabilities

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

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

23.2 Master netting or similar arrangements

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

Derivative assets and liabilities

- Offsetting has been applied to derivatives in the statements of financial position where the Group has a legally enforceable right to set-off and there is an intention to settle on a net basis.
- Certain derivatives are subject to the ISDA Master Agreement and other similar master netting arrangements. These arrangements contractually bind the Group and the counterparty to apply close out netting across all outstanding transactions only if either party defaults or other pre-agreed termination events occur. As such, they do not meet the criteria for offsetting in the statements of financial position.
- The cash collateral pledged or received is subject to the ISDA Credit Support Annex and other standard industry terms.

Repurchase agreements and reverse repurchase agreements

- Offsetting has been applied to repurchase agreements in the consolidated statement of financial position where the Group has a legally enforceable right to set-off and netting of payments or receipts apply or in some agreements netting only apply if both the Group and the respective counterparties agree.
- Provision is made for netting of payments/receipts of all amounts in the same currency payable by each party to the other and close-out netting on termination.
- Repurchase transactions are governed by the Global Master Repurchase Agreement (**GMRA**) published by the International Capital Markets Association (**ICMA**) and the Securities Industry and Financial Markets Association (**SIFMA**).

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

	Amounts subject to master netting or similar arrangements						
			Related amounts not offset on the SoFP				
Consolidated	**Gross amounts $M**	**Offsetting applied $M**	**Financial instruments $M**	**Financial collateral received/ pledged $M**	**Net exposure $M**	**Amounts not subject to master netting or similar arrangements $M**	**Total $M**
2019							
Financial assets							
Derivatives	563	-	(308)	(254)	1	30	593
Reverse repurchase agreements[1]	492	-	-	(492)	-	-	492
Total	1,055	-	(308)	(746)	1	30	1,085
Financial liabilities							
Derivatives	407	-	(308)	(95)	4	2	409
Repurchase agreements[2]	302	-	(302)	-	-	-	302
Total	709	-	(610)	(95)	4	2	711
2018							
Financial assets							
Derivatives	215	-	(107)	(67)	41	9	224
Reverse repurchase agreements[1]	251	-	-	(251)	-	-	251
Total	466	-	(107)	(318)	41	9	475
Financial liabilities							
Derivatives	154	-	(107)	(39)	8	4	158
Repurchase agreements[2]	301	-	(301)	-	-	-	301
Total	455	-	(408)	(39)	8	4	459

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

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

Company	Amounts subject to master netting or similar arrangements: Gross amounts $M	Offsetting applied $M	Related amounts not offset on the SoFP: Financial instruments $M	Financial collateral received/ pledged $M	Net exposure $M	Amounts not subject to master netting or similar arrangements $M	Total $M
2019							
Financial assets							
Derivatives	563	-	(308)	(254)	1	30	593
Reverse repurchase agreements[1]	492	-	-	(492)	-	-	492
Total	1,055	-	(308)	(746)	1	30	1,085
Financial liabilities							
Derivatives	407	-	(308)	(95)	4	2	409
Repurchase agreements[2]	302	-	(302)	-	-	-	302
Total	709	-	(610)	(95)	4	2	711
2018							
Financial assets							
Derivatives	215	-	(107)	(67)	41	9	224
Reverse repurchase agreements[1]	251	-	-	(251)	-	-	251
Total	466	-	(107)	(318)	41	9	475
Financial liabilities							
Derivatives	154	-	(107)	(39)	8	4	158
Repurchase agreements[2]	301	-	(301)	-	-	-	301
Total	455	-	(408)	(39)	8	4	459

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

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

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

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

Repurchase agreements

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

Reverse repurchase agreements

Collateral has been accepted in relation to reverse repurchase agreements. The fair value of collateral accepted as security for assets is $492 million (2018: $252 million) against a carrying amount of $492 million (2018: $251 million). These transactions are governed by standard industry agreements.

Covered bonds

The Company conducts a covered bond program whereby it issues covered bonds guaranteed by the Covered Bond Guarantor that are secured over a covered pool of assets consisting of $2,970 million (2018: $1,534 million) of mortgages and cash at call. Eligible mortgages are sold by the Company to a special purpose trust, the Suncorp Covered Bond Trust, which guarantees the covered bonds. The Covered Bond Guarantor can take possession of the cover pool under certain events. In the event of default by the Company, the covered bond holders have claim against both the cover pool assets and the Company. The Company receives the residual income of the Suncorp Covered Bond Trust after all costs of the program have been met. In the statement of financial position, the eligible mortgages transferred are included in ‘Loans and advances’ and the covered bonds issued are included in ‘Debt issues’.

Securitisation programs

The Company conducts a mortgage securitisation program whereby residential mortgages are packaged and sold to special purpose securitisation trusts known as the Apollo Series Trusts (the **Trusts**). The Trusts fund their purchase of the mortgages by issuing floating-rate pass-through debt securities. The Group receives residual income from the Trusts after all payments to security holders and costs of the program have been met. The Group does not guarantee 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 mortgages subject to the securitisation program have been pledged as security for the securities issued by the Trusts, and as such, the Group cannot use these assets to settle the liabilities of the Group. The Group is not obliged to support any losses that may be incurred by investors and does not intend to provide such support. In the consolidated statement of financial position, the mortgages transferred are included in ‘Loans and advances’ and the securitisation securities issued are included in ‘Securitisation liabilities’.

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

	2019			2018		
Consolidated	**Repurchase agreements $M**	**Covered bonds[1] $M**	**Securitisation liabilities[2] $M**	**Repurchase agreements $M**	**Covered bonds $M**	**Securitisation liabilities $M**
Carrying amount of transferred financial assets	302	3,021	3,923	301	1,534	4,910
Carrying amount of associated financial liabilities	302	2,788	3,831	301	2,037	4,848
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred financial assets	n/a	n/a	3,928	n/a	n/a	4,911
Fair value of associated financial liabilities	n/a	n/a	3,840	n/a	n/a	4,877
Net position			88			34

Note: n/a = not applicable

1 At reporting date, the Suncorp Covered Bond Trust holds $1 million (2018: $644 million) in an at call deposit account with the Company, which has been eliminated on consolidation and forms part of the covered pool assets.

2 Securitisation liabilities of the Group comprise RMBS notes issued by the Apollo Trusts and are held by external investors, refer to note 23.3. The carrying amount of transferred assets are included as part of 'Loans and advances' in the SoFP.

	2019			2018		
Company	**Repurchase agreements $M**	**Covered bonds[1] $M**	**Securitisation liabilities[2] $M**	**Repurchase agreements $M**	**Covered bonds $M**	**Securitisation liabilities $M**
Carrying amount of transferred financial assets	302	3,021	10,253	301	1,534	10,829
Carrying amount of associated financial liabilities	302	2,788	10,489	301	2,037	11,105
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred financial assets	n/a	n/a	10,270	n/a	n/a	10,826
Fair value of associated financial liabilities	n/a	n/a	9,930	n/a	n/a	10,561
Net position			340			265

Note: n/a = not applicable

1 At reporting date, the Suncorp Covered Bond Trust holds $1 million (2018: $644 million) in an at call deposit account with the Company.

2 Securitisation liabilities of the Company comprise borrowings from the Apollo Trusts, including those which issue only internally held notes for repurchase with central banks. The carrying amount of the internal transferred assets of $6,330 million (2018: $5,919 million) and external transferred assets of $3,923 million (2018: $4,910 million) are included as part of 'Loans and advances' in the SoFP. The carrying amount of associated liabilities is included as part of 'Due to related parties' in the SoFP.

24. Risk management

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

The Board recognises that a strong risk culture, good governance and effective risk management are essential to achieving Suncorp's strategy and business plan and maintaining Suncorp's social licence to operate. Suncorp has systems, policies, processes and people in place to identify, measure, analyse, monitor, report and control or mitigate internal and external sources of material risk. The material risks addressed by Suncorp's Enterprise Risk Management Framework (**ERMF**) are defined below.

Material risks	Definition
Strategic risk	Suncorp recognises and defines two types of strategic-level risk: Strategic Risk – risks to the viability of Suncorp's business model resulting from adverse changes in the external business environment, with respect to the economy, political landscape, regulation, technology, customer and social expectations and competitors. Strategic Execution Risk – the risk of failing to achieve strategic business objectives or execution of the business strategy.
Financial risk	Financial risks include Credit, Counterparty and Contagion risk, Market/Investment risk, Liquidity risk and Asset and Liability Management (**ALM**) risk. Credit risk is the risk of default of an obligor to fully meet their commitments in a timely manner. Counterparty risk is the risk that the other party in an agreement will default/will not meet its contractual obligations in accordance with agreed terms. Contagion risk is the risk that problems impacting one entity within Suncorp may compromise the financial position of other entities within Suncorp. Market/Investment risk is the risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities. Liquidity risk is the risk that Suncorp will be unable to service its cash flow obligations today or in the future. ALM risk is the risk of adverse movements in the relative value of assets and liabilities due to changes in market factors (e.g. Interest Rates, Inflation, Foreign Exchange), the variation in repricing profiles or from the different characteristics of the assets and liabilities.
Insurance risk	The risk that for any class of risk insured, the present value of actual claims payable, will exceed the present value of actual premium revenues generated (net of reinsurance).
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes compliance and legal risk.

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

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

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

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

— note 11 derivative financial instruments.

25. Risk management for financial instruments

25.1 Credit risk

(a) Credit risk exposures

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

Credit risk is managed on a structured basis with approval decisions being taken within credit approval authorities delegated by the Board. The setting and maintenance of detailed credit policies and standards is undertaken within an independent function under the responsibility of the Chief Risk Officer, Banking & Wealth. The Chief Executive Officer, Banking & Wealth is accountable for exercising delegated credit authority for credit decisions and delivering delegated credit authorities for the completion of first line of defence credit activities, in accordance with Board delegated authorities and credit policies and standards. The management of troublesome and impaired assets is the responsibility of the Business Customers Support team within the Chief Risk Office, however, the Chief Executive Officer, Banking & Wealth retains accountability for these activities.

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

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

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

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

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

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

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

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

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

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

Consolidated	Receivables due from other banks $M	Trading securities $M	Investment securities $M	Loans and advances $M	Credit commitments[1] $M	Derivatives[1] $M	Total risk $M
2019							
Agribusiness	-	-	-	4,022	191	-	4,213
Construction	-	-	-	888	207	-	1,095
Financial services	499	-	1,987	87	342	209	3,124
Hospitality	-	-	-	972	66	-	1,038
Manufacturing	-	-	-	261	27	-	288
Professional services	-	-	-	310	18	-	328
Property investment	-	-	-	2,774	130	-	2,904
Real estate - Mortgages	-	-	-	47,793	1,254	-	49,047
Personal	-	-	-	154	4	-	158
Government and public authorities	-	1,227	1,967	-	-	-	3,194
Other commercial and industrial	-	-	-	2,035	187	-	2,222
Total gross credit risk	499	1,227	3,954	59,296	2,426	209	67,611
Impairment provisions	-	-	-	(142)	-	-	(142)
Total credit risk	499	1,227	3,954	59,154	2,426	209	67,469
2018							
Agribusiness	-	-	-	4,014	197	-	4,211
Construction	-	-	-	732	251	-	983
Financial services	474	-	1,933	92	172	202	2,873
Hospitality	-	-	-	986	96	-	1,082
Manufacturing	-	-	-	234	24	-	258
Professional services	-	-	-	278	17	-	295
Property investment	-	-	-	2,448	121	-	2,569
Real estate - Mortgages	-	-	-	47,611	1,484	-	49,095
Personal	-	-	-	182	5	-	187
Government and public authorities	-	1,639	2,125	-	-	-	3,764
Other commercial and industrial	-	-	-	2,151	208	-	2,359
Total gross credit risk	474	1,639	4,058	58,728	2,575	202	67,676
Impairment provisions	-	-	-	(130)	-	-	(130)
Total credit risk	474	1,639	4,058	58,598	2,575	202	67,546

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

Company	Receivables due from other banks $M	Trading securities $M	Investment securities $M	Loans and advances $M	Credit commitments[1] $M	Derivatives[1] $M	Total risk $M
2019							
Agribusiness	-	-	-	3,925	191	-	4,116
Construction	-	-	-	871	207	-	1,078
Financial services	499	-	1,987	86	410	294	3,276
Hospitality	-	-	-	969	66	-	1,035
Manufacturing	-	-	-	247	27	-	274
Professional services	-	-	-	302	18	-	320
Property investment	-	-	-	2,773	130	-	2,903
Real estate - Mortgages	-	-	-	47,793	1,254	-	49,047
Personal	-	-	-	154	4	-	158
Government and public authorities	-	1,227	1,967	-	-	-	3,194
Other commercial and industrial	-	-	-	1,989	187	-	2,176
Total gross credit risk	499	1,227	3,954	59,109	2,494	294	67,577
Impairment provisions	-	-	-	(136)	-	-	(136)
Total credit risk	499	1,227	3,954	58,973	2,494	294	67,441
2018							
Agribusiness	-	-	-	3,898	197	-	4,095
Construction	-	-	-	710	251	-	961
Financial services	474	-	1,934	90	254	301	3,053
Hospitality	-	-	-	982	96	-	1,078
Manufacturing	-	-	-	220	24	-	244
Professional services	-	-	-	267	17	-	284
Property investment	-	-	-	2,447	121	-	2,568
Real estate - Mortgages	-	-	-	47,611	1,484	-	49,095
Personal	-	-	-	182	5	-	187
Government and public authorities	-	1,639	2,125	-	-	-	3,764
Other commercial and industrial	-	-	-	2,098	208	-	2,306
Total gross credit risk	474	1,639	4,059	58,505	2,657	301	67,635
Impairment provisions	-	-	-	(128)	-	-	(128)
Total credit risk	474	1,639	4,059	58,377	2,657	301	67,507

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

Consolidated	2019 Gross impaired assets $M	2019 Past due > 90 days but not impaired $M	2019 Remaining assets[1] and not impaired $M	2019 Total risk $M	2018 Individually provisioned impaired assets $M	2018 Past due > 90 days but not impaired $M	2018 Remaining assets[1] and not impaired $M	2018 Total risk $M
Agribusiness	32	36	4,145	4,213	48	25	4,138	4,211
Construction	6	2	1,087	1,095	1	1	981	983
Financial services	-	-	3,125	3,125	-	-	2,873	2,873
Hospitality	26	-	1,012	1,038	26	1	1,055	1,082
Manufacturing	4	1	283	288	2	2	254	258
Professional services	1	2	325	328	1	2	292	295
Property investment	2	2	2,900	2,904	8	3	2,558	2,569
Real estate - Mortgages	56	490	48,500	49,046	38	480	48,577	49,095
Personal	-	3	155	158	-	5	182	187
Government and public authorities	-	-	3,194	3,194	-	-	3,764	3,764
Other commercial and industrial	19	15	2,188	2,222	20	22	2,317	2,359
Total gross credit risk	146	551	66,914	67,611	144	541	66,991	67,676
Impairment provisions	(31)	(32)	(79)	(142)	(39)	(21)	(70)	(130)
Total credit risk	115	519	66,835	67,469	105	520	66,921	67,546

1 Not past due or past due ≤ 90 days.

Company	2019 Gross impaired assets $M	2019 Past due > 90 days but not impaired $M	2019 Remaining assets[1] and not impaired $M	2019 Total risk $M	2018 Individually provisioned impaired assets $M	2018 Past due > 90 days but not impaired $M	2018 Remaining assets[1] and not impaired $M	2018 Total risk $M
Agribusiness	32	36	4,048	4,116	48	25	4,022	4,095
Construction	6	2	1,070	1,078	1	1	959	961
Financial services	-	-	3,276	3,276	-	-	3,053	3,053
Hospitality	26	-	1,009	1,035	26	1	1,051	1,078
Manufacturing	4	-	270	274	2	2	240	244
Professional services	1	2	319	322	1	2	281	284
Property investment	2	2	2,899	2,903	8	3	2,557	2,568
Real estate - Mortgages	56	491	48,500	49,047	38	480	48,577	49,095
Personal	-	3	155	158	-	5	182	187
Government and public authorities	-	-	3,194	3,194	-	-	3,764	3,764
Other commercial and industrial	18	13	2,143	2,174	19	22	2,265	2,306
Total gross credit risk	145	549	66,883	67,577	143	541	66,951	67,635
Impairment provisions	(31)	(31)	(74)	(136)	(38)	(21)	(69)	(128)
Total credit risk	114	518	66,809	67,441	105	520	66,882	67,507

1 Not past due or past due ≤ 90 days.

(b) Credit quality

Credit quality of loans and advances are classified as follows:

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

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

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

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

— reduction in principal, interest or other payments due or

— an extended maturity date for repayment.

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

	Consolidated		Company	
	2019 $M	**2018 $M**	**2019 $M**	**2018 $M**
Performing loans				
Loans and advances	58,594	58,041	58,410	57,819
Loans and advances with restructured terms	5	2	5	2
Collective provision for impairment	(79)	(70)	(74)	(69)
	58,520	57,973	58,341	57,752
Non-performing loans – not impaired				
Non-performing loans – not impaired	551	541	549	541
Collective provision for impairment	(32)	(21)	(31)	(21)
	519	520	518	520
Non-performing loans – impaired				
Gross impaired loans	146	144	145	143
Specific provision for impairment	(31)	(39)	(31)	(38)
	115	105	114	105
Total loans and advances	59,154	58,598	58,973	58,377

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

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

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

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

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

			2019		
Consolidated	**Stage 1 - 12-month ECL $M**	**Stage 2 - Lifetime ECL $M**	**Stage 3 - Lifetime Collective ECL $M**	**Stage 3 - Specific Provision $M**	**Total $M**
Statistically-managed portfolio					
Credit grade - Strong	47,285	-	-	-	47,285
Credit grade - Satisfactory	938	664	-	-	1,602
Credit grade - Weak	-	632	513	-	1,145
Credit grade - Impaired	-	-	24	32	56
Risk-graded portfolio					
Credit grade - Strong	3,977	-	-	-	3,977
Credit grade - Satisfactory	4,431	312	-	-	4,743
Credit grade - Weak	-	297	101	-	398
Credit grade - Impaired	-	-	-	90	90
Gross carrying amount	56,631	1,905	638	122	59,296
Provision for impairment	(42)	(37)	(32)	(31)	(142)
Net carrying amount	56,589	1,868	606	91	59,154

			2019		
Company	**Stage 1 - 12-month ECL $M**	**Stage 2 - Lifetime ECL $M**	**Stage 3 - Lifetime Collective ECL $M**	**Stage 3 - Specific Provision $M**	**Total $M**
Statistically-managed portfolio					
Credit grade - Strong	47,230	-	-	-	47,230
Credit grade - Satisfactory	931	665	-	-	1,596
Credit grade - Weak	-	632	515	-	1,147
Credit grade - Impaired	-	-	23	32	55
Risk-graded portfolio					
Credit grade - Strong	3,908	-	-	-	3,908
Credit grade - Satisfactory	4,387	308	-	-	4,695
Credit grade - Weak	-	290	98	-	388
Credit grade - Impaired	-	-	-	90	90
Gross carrying amount	56,456	1,895	636	122	59,109
Provision for impairment	(39)	(35)	(31)	(31)	(136)
Net carrying amount	56,417	1,860	605	91	58,973

As stated in note 2, the 30 June 2018 prior period comparatives have not been restated and are shown below. Note 2.1 provides a reconciliation of the impact on the transition to AASB 9.

2018	Strong $M	Satisfactory $M	Weak $M	Total $M
Consolidated				
Loans and advances				
Retail banking	45,491	1,251	526	47,268
Business banking	7,040	3,474	261	10,775
	52,531	4,725	787	58,043
Company				
Loans and advances				
Retail banking	45,491	1,251	526	47,268
Business banking	6,946	3,350	257	10,553
	52,437	4,601	783	57,821

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

	Past due but not impaired					
Consolidated	1-29 days $M	30-59 days $M	60-89 days $M	90-179 days $M	>= 180 days $M	Total $M
2019						
Loans and advances						
Retail banking	774	215	163	234	259	1,645
Business banking	23	27	30	28	30	138
	797	242	193	262	289	1,783
2018						
Loans and advances						
Retail banking	857	210	154	275	210	1,706
Business banking	64	23	12	24	32	155
	921	233	166	299	242	1,861

Company	Past due but not impaired 1-29 days $M	30-59 days $M	60-89 days $M	90-179 days $M	>= 180 days $M	Total $M
2019						
Loans and advances						
Retail banking	774	215	163	234	259	1,645
Business banking	23	26	29	27	29	134
	797	241	192	261	288	1,779
2018						
Loans and advances						
Retail banking	857	210	154	275	210	1,706
Business banking	64	22	12	24	32	154
	921	232	166	299	242	1,860

(c) Collateral management

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

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

More than 80.9 per cent (2018: 81.5 per cent) of the Group's lending is consumer in nature and 99.7 per cent (2018: 99.6 per cent) of that lending is secured by residential property. Residential Lenders Mortgage Insurance is generally required for residential mortgages with a Loan-to-Value ratio at origination of more than 80 per cent to cover any shortfall in outstanding loan principal and accrued interest. The financial effect of these measures is that remaining credit risk on residential loans is significantly reduced.

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

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

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

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

(d) Concentration of credit risk

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

	Consolidated		Company	
Geographic breakdown	**2019 $M**	**2018 $M**	**2019 $M**	**2018 $M**
Queensland	31,600	31,005	31,474	30,852
New South Wales	15,858	15,624	15,812	15,566
Victoria	5,920	6,079	5,914	6,071
Western Australia	3,524	3,587	3,523	3,586
South Australia and other	2,394	2,433	2,386	2,430
Gross loans and advances	59,296	58,728	59,109	58,505

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

Consolidated and Company	**2019 Number**	**2018 Number**
25% and greater	-	1
20% to less than 25%	1	1
15% to less than 20%	1	1
10% to less than 15%	2	1
5% to less than 10%	-	3

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

(e) Provision for impairment – specific and collective provisions

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

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

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

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

Loans with similar credit risk characteristics are grouped as follows:

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

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

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

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

Suncorp implemented the Group Model Integrity Framework which outlines the mandatory governance requirements to manage its models. The Model Owner is accountable for ensuring that these models are effectively managed, including the model's specification, development and maintenance, ensuring that the model fulfils its objectives and manages the impacts from any model risk incident.

The Model Technical Committee and Model Risk Committee manage the performance of its models, provide model risk oversight and challenge the performance of its models throughout their lifecycle by ensuring that:

— The model is appropriately implemented and performs as intended;

— The underlying assumptions/methodology are appropriate and fit-for-purpose;

— The integrity of the data feeding into the models is credible and where necessary action is taken to remediate any issues in a timely manner; and

— There is confidence that the model development activity has been subject to robust and independent challenge.

25.2 Liquidity risk

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

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

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

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

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

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

(a) Maturity analysis

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

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

Derivatives designated in a hedging relationship are included according to their contractual maturity.

Contractual maturities for non-hedge accounted derivative liabilities are not included within the following tables as they are frequently settled and managed within the short term (refer to Note 11).

Consolidated	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
2019							
Payables due to other banks	353	353	-	-	-	-	353
Deposits and short-term borrowings	46,551	22,489	12,034	12,195	251	-	46,969
Payables and other liabilities	424	-	424	-	-	-	424
Due to related parties	14	-	14	-	-	-	14
Securitisation liabilities	3,831	-	277	820	2,329	656	4,082
Debt issues	10,358	-	689	2,478	7,222	676	11,065
Subordinated notes[1]	672	-	6	15	673	72	766
	62,203	22,842	13,444	15,508	10,475	1,404	63,673
Derivatives							
Contractual amounts receivable (gross settled)	(550)	-	(83)	(166)	(285)	(24)	(558)
Contractual amounts payable (gross and net settled)	912	-	99	285	504	38	926
	362	-	16	119	219	14	368
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	276	-	-	-	-	276
Commitments to provide loans and advances	-	8,576	-	-	-	-	8,576
	-	8,852	-	-	-	-	8,852
2018							
Payables due to other banks	148	148	-	-	-	-	148
Deposits and short-term borrowings	46,043	20,289	13,985	12,072	255	-	46,601
Payables and other liabilities	423	-	423	-	-	-	423
Due to related parties	20	-	20	-	-	-	20
Securitisation liabilities	4,848	-	368	974	3,005	1,008	5,355
Debt issues	9,854	-	370	2,739	6,871	697	10,677
Subordinated notes[1]	742	-	9	679	9	72	769
	62,078	20,437	15,175	16,464	10,140	1,777	63,993
Derivatives							
Contractual amounts receivable (gross settled)	(1,733)	-	(102)	(285)	(1,400)	(61)	(1,848)
Contractual amounts payable (gross and net settled)	1,864	-	115	317	1,471	70	1,973
	131	-	13	32	71	9	125
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	271	-	-	-	-	271
Commitments to provide loans and advances	-	8,619	-	-	-	-	8,619
	-	8,890	-	-	-	-	8,890

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

Company	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
2019							
Payables due to other banks	353	353	-	-	-	-	353
Deposits and short-term borrowings	46,571	22,509	12,034	12,195	251	-	46,989
Payables and other liabilities	432	-	432	-	-	-	432
Due to related parties[2]	10,508	-	3,850	-	-	6,658	10,508
Debt issues	10,358	-	689	2,478	7,222	676	11,065
Subordinated notes[1]	672	-	6	15	673	72	766
	68,894	22,862	17,011	14,688	8,146	7,406	70,113
Derivatives							
Contractual amounts receivable (gross settled)	(550)	-	(83)	(166)	(285)	(24)	(558)
Contractual amounts payable (gross and net settled)	912	-	99	285	504	38	926
	362	-	16	119	219	14	368
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	276	-	-	-	-	276
Commitments to provide loans and advances	-	8,643	-	-	-	-	8,643
	-	8,919			-	-	8,919
2018							
Payables due to other banks	148	148	-	-	-	-	148
Deposits and short-term borrowings	46,707	20,953	13,985	12,072	255	-	47,265
Payables and other liabilities	414	-	414	-	-	-	414
Due to related parties[2]	11,125	-	348	974	3,005	7,265	11,592
Debt issues	9,854	-	370	2,739	6,871	697	10,677
Subordinated notes[1]	742	-	9	679	9	72	769
	68,990	21,101	15,126	16,464	10,140	8,034	70,865
Derivatives							
Contractual amounts receivable (gross settled)	(1,733)	-	(102)	(285)	(1,400)	(61)	(1,848)
Contractual amounts payable (gross and net settled)	1,864	-	115	317	1,471	70	1,973
	131	-	13	32	71	9	125
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	271	-	-	-	-	271
Commitments to provide loans and advances	-	8,701	-	-	-	-	8,701
	-	8,972			-	-	8,972

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

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

(b) Composition of funding

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

		Consolidated		Company	
	Note	2019 $M	2018 $M	2019 $M	2018 $M
Customer funding					
Customer deposits					
At-call deposits		22,502	20,289	22,522	20,953
Term deposits		16,401	18,272	16,401	18,272
Total retail funding		38,903	38,561	38,923	39,225
Wholesale funding					
Domestic funding					
Short-term wholesale		5,376	5,442	5,376	5,442
Long-term wholesale		4,032	4,863	4,032	4,863
Covered bonds		2,788	2,037	2,788	2,037
Subordinated notes		672	742	672	742
Total domestic funding		12,868	13,084	12,868	13,084
Overseas funding[1]					
Short-term wholesale		2,272	2,040	2,272	2,040
Long-term wholesale		3,538	2,954	3,538	2,954
Total overseas funding		5,810	4,994	5,810	4,994
Total wholesale funding		18,678	18,078	18,678	18,078
Total funding (excluding securitisation)		57,581	56,639	57,601	57,303
Securitisation					
APS 120 qualifying[2]		3,825	4,809	-	-
APS 120 non-qualifying		6	39	-	-
Total securitisation		3,831	4,848	-	-
Total funding (including securitisation)		61,412	61,487	57,601	57,303
Comprised of the following items on the statement of financial position					
Deposits and short-term borrowings	14	46,551	46,043	46,571	46,707
Securitisation liabilities	23.3	3,831	4,848	-	-
Debt issues	16	10,358	9,854	10,358	9,854
Subordinated notes	17	672	742	672	742
Total funding		61,412	61,487	57,601	57,303

1 Foreign currency borrowings are hedged back into Australian dollars.

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

25.3 Market risk

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

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

(a) Traded market risk

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

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

VaR is modelled at a 99 per cent confidence level over a one-day holding period for trading book positions.

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

	2019			2018		
Consolidated and Company	**Interest rate risk[1] $M**	**FX risk $M**	**Combined risk[2] $M**	**Interest rate risk[1] $M**	**FX risk $M**	**Combined risk[2] $M**
VaR at the end of the financial year	0.11	0.14	0.17	0.11	0.10	0.16
Average VaR for the financial year	0.09	0.18	0.21	0.10	0.11	0.16

1 Does not include the Balance Sheet Management Tactical portfolio VaR of $0.05 million (2018: $0.01 million).

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

(b) Non-traded interest rate risk

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

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

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

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

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

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

— embedded value risk: resulting from differences in transactions book value compared to market-to-market fair value due to past interest rate movements.

— spread risk: arises due to the imperfect movement of interest rates for different yield curves within an economy.

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

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

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

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

Consolidated and Company	2019 $M	2018 $M
Exposure at the end of the financial year	(23)	(31)
Average exposure during the financial year	(15)	(25)

(ii) Present value sensitivity

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

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

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

Consolidated and Company	2019 $M	2018 $M
Exposure at the end of the financial year	(63)	(4)
Average exposure during the financial year	(47)	(51)

(iii) Value at Risk (VaR)

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

Consolidated and Company	2019 $M	2018 $M
Exposure at the end of the financial year	(24)	(18)
Average exposure during the financial year	(22)	(19)

(c) Non-traded foreign exchange risk

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

26. Commitments

26.1 Credit commitments

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

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

	Consolidated		Company	
	2019	2018	2019	2018
	$M	$M	$M	$M
Notional amounts				
Guarantees entered into in the normal course of business	276	271	276	271
Commitments to provide loans and advances	8,576	8,619	8,643	8,701
	8,852	8,890	8,919	8,972
Credit equivalent amounts				
Guarantees entered into in the normal course of business	276	270	276	270
Commitments to provide loans and advances	2,150	2,305	2,217	2,387
	2,426	2,575	2,493	2,657

26.2 Operating lease expenditure commitments

The Group previously leased property under an operating lease. On 1 July 2019, the obligation and commitment of the leased property will be transferred to a related party, Suncorp Corporate Services Pty Ltd. No operating lease commitment exists for the Company and the Group beyond 30 June 2019, accordingly AASB 16 *Leases*, which is effective from 1 July 2019 does not impact the Company and the Group.

Total operating lease rental expense recognised in the statements of comprehensive income as part of 'Operating expenses' for the Group and Company was $8 million (2018: Group and Company: $9 million).

27. Composition of the Company

27.1 Material subsidiaries of the Company

Subsidiaries	Class of shares	Country of incorporation	2019 Equity holding %	2018 Equity holding %
APOLLO Series Trusts (various)[1]	Units	Australia	100	100
Suncorp Covered Bond Trust	Units	Australia	100	100
SME Management Pty Limited	Ordinary	Australia	100	100
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	100	100

1 The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold as securities to the wholly owned Apollo Series Trusts. As at 30 June 2019, the Company held interest in ten Trusts (2018: ten)

27.2 Consolidated structured entities

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

Liquidity facility

The Group provides a liquidity facility to the Trustee of the Trusts. There are two instances when the liquidity facility can be drawn: a) if on a Determination Date, the investor revenues received by the Trusts are insufficient to meet its total expenses; and b) in the event that the Company does not meet its designated credit rating. The maximum amount which can be drawn is $146 million (2018: $150 million).

The amount drawn as of 30 June 2019 is $nil million (2018: $nil million).

Redraw facility

The Group provides a redraw facility to the Trustee of the Trusts. The redraw facility can be drawn if on a Determination Date, the Principal Collections to reimburse the seller for any redraws funded during the monthly period are insufficient. The maximum amount which can be drawn is $55 million (2018: $57 million).

The amount drawn as of 30 June 2019 is $nil million (2018: $nil million).

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

28.1 KMP disclosures

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

Total compensation for KMP are as follows:

	2019 $000	2018 $000
Short-term employee benefits	14,318	18,208
Long-term employee benefits	105	278
Post-employment benefits	456	389
Share-based payments	8,292	8,571
Termination benefits	1,668	2,363
	24,839	29,809

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

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

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

	2019		2018	
	Key management personnel $000	Other related parties $000	Key management personnel $000	Other related parties $000
Closing balance	5,227	2,698	5,931	1,050
Interest charged	173	13	228	16

28.2 Other related party transactions

	Consolidated 2019 $000	Consolidated 2018 $000	Company 2019 $000	Company 2018 $000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:				
Other operating income				
Subsidiaries	-	-	315,554	318,697
Other related parties	1,977	2,500	1,977	2,500
Interest expense				
Subsidiaries	-	-	4,023	3,620
Other related parties	29,296	34,866	29,296	34,866
Operating expenses[1]				
Subsidiaries	-	-	431,379	426,937
Other related parties	613,132	651,046	613,132	651,046
Dividends paid				
Parent entity	202,000	297,800	202,000	297,800
Other related parties	22,788	30,712	22,788	30,712
Aggregate amounts receivable from, and payable to, each class of related parties as at the end of the financial year				
Investment securities				
Subsidiaries	-	-	25	866
Due from related parties				
Subsidiaries	-	-	6,854,089	7,116,907
Other related parties	357,195	361,614	357,195	361,614
Deposits and short-term borrowings				
Subsidiaries	-	-	19,880	664,319
Other related parties	361,379	492,958	361,379	492,958
Due to related parties				
Subsidiaries	-	-	10,494,301	11,110,362
Other related parties	13,507	19,878	13,507	19,878
Subordinated notes				
Other related parties	600,000	670,000	600,000	670,000

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

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

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

Related party loans and advances are disclosed within the statement of financial position caption 'Due from related parties'. All amounts are expected to be fully recoverable. The key terms of the material financing arrangements as at 30 June 2019 are presented in the table below:

Consolidated and Company	Facility $M	Carrying amount $M	Interest rate %	Maturity
Long-term fixed facility	291	257	BBSW 90 + 2.15%	30 Jun 2027
Revolving facility	120	115	BBSW 90 + 2.15%	30 Sep 2021
Other	7	7	Various	Various
Total loans and advances to other related parties	418	379		

29. Auditor's remuneration

	Consolidated		Company	
	2019 $000	2018 $000	2019 $000	2018 $000
KPMG Australia				
Audit and review services				
Audit and review of financial reports	1,312	1,149	1,178	1,015
Other regulatory audits	391	585	391	585
	1,703	1,734	1,569	1,600
Other services				
In relation to other assurance, actuarial, taxation and other non-audit services	457	519	372	388
Total auditor's remuneration	2,160	2,253	1,941	1,988

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

30. Contingent assets and liabilities

30.1 Contingent assets

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

30.2 Contingent liabilities

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

There are contingent liabilities in respect of matters below. Where appropriate, provisions have been made.

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

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

— In the ordinary course of business, the 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.

— The Group is currently undertaking a number of reviews to identify and resolve prior issues that have the potential to impact customers. An assessment of the Group's likely loss has been considered on a case-by-case basis for the purpose of the financial statements but cannot always be reliably estimated. Contingent liabilities may exist in respect of actual or potential claims, compensation payments and / or refunds identified as part of these reviews. The outcomes and total costs associated with these reviews and possible exposures remain uncertain.

— The report of the Royal Commission into Misconduct in the Banking Superannuation and Financial Services Industry (**Royal Commission**) was released on 1 February 2019 and sets out 76 policy recommendations to strengthen protections for consumers, small business and rural and regional communities and generally brought greater focus on culture and compliance matters. Group is working through these matters, including the specific findings referenced to Group by the regulator. The outcomes and costs associated with many of these potential matters remain uncertain.

31. Significant accounting policies

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

31.1 Basis of consolidation

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

(a) Subsidiaries

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

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

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

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

31.2 Foreign currency

(a) Foreign currency transactions

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

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

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

31.3 Revenue and expense recognition

(a) Interest income and expense

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

Interest income and expense on financial assets or liabilities at fair value are recognised in profit or loss when earned or incurred.

(b) Dividends and distribution income

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

(c) Other income

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

Service fees that represent the recoupment of the costs of providing services, for example maintaining and administering existing facilities, are recognised when the performance obligation is satisfied. Fees can be recognised over time (i.e. annual fees) or at a point in time, when a promised service is performed (i.e. late payment fees).

31.4 Income tax

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

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

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

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

(a) Tax consolidation

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

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

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

(b) Taxation of financial arrangements

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

31.5 Goods and services tax (GST)

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

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

31.6 Cash and cash equivalents

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

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

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

31.7 Non-derivative financial assets

The Group determines whether each financial asset's contractual cash flows are solely principal payments and interest (**SPPI**) and how the financial asset is managed.

(a) Fair value through profit or loss

Financial assets where contractual cash flows are not SPPI will be classified at fair value through profit and loss (**FVTPL**). Assets that are SPPI, but managed on a fair value basis will also be classified at FVTPL. Where financial assets other than FVTPL back liabilities at fair value through profit or loss, this would create an accounting mismatch and the financial assets can be designated at FVTPL to remove this mismatch.

Financial assets at FVTPL are initially recognised on trade date at fair value. Transaction costs are recognised in profit or loss as incurred. Subsequently, the assets are measured at fair value on each reporting date and any gains or losses are taken immediately to profit or loss. This category includes trading securities.

(b) Amortised cost

For assets where cash flows are SPPI and the business model is held-to-collect these cash flows, the classification is at amortised cost. This category includes loans and advances.

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

(c) Fair value through other comprehensive income

Debt instruments that are SPPI and are held-to-collect-and-sale (regular, but not frequent sales) will be recorded as fair value through other comprehensive income (**FVOCI**). These will be measured at fair value with subsequent changes going through other comprehensive income (**OCI**). On derecognition, the accumulated OCI will be recycled into profit and loss. This category includes investment securities.

(d) Derecognition of financial assets

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

(e) Repurchase agreements and reverse repurchase agreements

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

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

31.8 Investments in subsidiaries

Investments in subsidiaries are carried at cost.

31.9 Derivative financial instruments

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

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

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

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host. 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 and loss. Otherwise, the embedded derivative is accounted for on the same basis as the host contract.

When a hybrid contract contains a host that is a financial asset, the entire hybrid contract is assessed for classification. If the hybrid contract contains a host that is a financial liability or a contract that is not a financial asset, the hybrid contract is assessed to determine whether the embedded derivative is required to be separated. Separation of the embedded derivative from the host contract is not permitted when the hybrid contract is measured at fair value through profit or loss; the embedded derivative meets the definition of a standalone derivative; or the embedded derivative is closely related to the host contract.

31.10 Hedge accounting

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

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

(a) Cash flow hedges

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

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

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

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

(b) Fair value hedges

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

— a recognised asset or liability;

— an unrecognised firm commitment; or

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

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

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 hedged item is accounted for under the effective interest method from that point and any accumulated adjustment to the carrying value of the hedged item from when it was effective is released to profit or loss over the period to when the hedged item will mature.

31.11 Impairment

(a) Financial assets

Loans and receivables

Expected credit losses (**ECL**) will be recorded for all financial assets measured at amortised cost or FVOCI. ECL is calculated as the probability of default (**PD**) x loss given default (**LGD**) x exposure at default. The credit models are calibrated to reflect PD and LGD estimates based on historical observed experience, as well as reflecting the influence of unbiased forward-looking views of macroeconomic conditions, through macroeconomic variables that influence credit losses, for example unemployment rates and changes in house prices.

The economic forecasts underpinning the PD and LGD estimates are reviewed on at least a 6-monthly basis, taking into account expert judgment, and are approved by the Bank's Asset and Liability Committee. Management has included adjustments to the modelled provisions to capture emerging risks that have not yet been captured in the ECL model.

Financial assets that are subject to credit risk are assigned to one of three stages and could be reassigned based on changes in asset quality:

— Stage 1 are performing and/or newly originated assets. Provisions for loans in stage 1 are established to provide for ECL for a period of 12 months;

— Stage 2 assets have experienced a significant increase in credit risk (**SICR**) since origination. Provisions for loans in stage 2 are established to provide for ECL for the remaining term of the asset (**lifetime ECL**); and

— Stage 3 are 'past due but not impaired' and impaired assets. Provisions for loans in stage 3 are established to provide for the lifetime ECL.

Portfolio managed assets in stage 3 (mainly retail lending), will have a collective provision determined by the ECL model, although some loans are individually covered by a specific provision. The majority of relationship managed assets in stage 3 (mainly business lending) will require a specific provision unless it is determined that a collective provision provides a more appropriate estimate. A specific provision is calculated based on estimated future cash flows discounted to their present value.

A SICR event occurs if a loan deteriorates since origination on the master rating scale (**MRS**) by a defined number of notches. Loans with a higher MRS at origination (higher risk) require fewer notch movements to trigger a SICR event than loans with a lower MRS at origination (lower risk). From the perspective of arrears, 30 days past due is always considered stage 2. Exposures for which the MRS subsequently improves to below the SICR threshold will move back to stage 1. Loans restructured on commercial terms with a significant modification of their terms and conditions are considered a re-origination and will be moved into stage 1.

A write off is made when all practical recovery efforts have concluded and all or part of a financial asset is deemed unrecoverable or forgiven. Write-offs reduce the principal amount of a claim and are charged against previously established ECLs.

(b) Non-financial assets

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

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

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

31.12 Non-derivative financial liabilities

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

These liabilities are classified as either held for trading or those that are designated upon initial recognition. Liabilities are initially recognised on trade date at fair value with any directly attributable transaction costs recognised in profit or loss as incurred. Fair value is determined using the offer price where available. Movements in the fair value are recognised in the profit or loss. The impact of changes in ‘own credit risk’ for financial liabilities designated at FVTPL will be separated and recorded in OCI instead of profit or loss. The Group designates certain short-term offshore borrowings at fair value through profit or loss when they are managed on a fair value basis.

(b) Financial liabilities at amortised cost

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

(c) Hybrid instruments

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

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

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

(d) Derecognition of financial liabilities

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

31.13 Leases

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

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

31.14 Contingent liabilities and contingent assets

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

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

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

32. Subsequent events

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

DIRECTORS' DECLARATION

1. The directors of Suncorp-Metway Limited (the **Company)** declare that in their opinion:

   a. the financial statements and notes, and the Remuneration Report in the Directors' Report set out on pages 17 to 40, are in accordance with the *Corporations Act 2001,* including:

      i. giving a true and fair view of the Company's and the Group's financial position as at 30 June 2019 and of their performance for the financial year ended on that date; and

      ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*

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

2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2019.

3. The directors draw attention to note 2.1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

CHRISTINE MCLOUGHLIN

Chairman of the Board

DR DOUGLAS MCTAGGART

Director

7 August 2019

KPMG

Independent Auditor's Report

To the shareholders of Suncorp-Metway Limited

Report on the audits of the Financial Reports

Opinions

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

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

- giving a true and fair view of the ***Group***'s and of the ***Company***'s financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

- Statements of financial position as at 30 June 2019
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinions

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

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

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

Key Audit Matters

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

- Expected credit loss provisions for loans and advances held at amortised cost;
- Financial instruments at fair value; and
- IT systems and controls.

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

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

Expected credit loss provisions for loans and advances held at amortised cost - Group ($142m) and Company ($136m)

Refer to Note 12, 13, 25.1, 31.11(a) and 31.5 to the Group Financial Report and Company Financial Report

<table>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audits</th></tr>
<tr><td>
Expected credit loss (ECL) provisions for loans and advances held at amortised cost is a key audit matter owing to the significance of loans and advances balances, the high degree of complexity and judgement applied by the Group and the Company in determining the provisions, and the judgement required by us in challenging these estimates. The Group and Company adopted AASB 9 Financial Instruments (AASB 9) on 1 July 2018.
Using AASB 9, considerable judgement is required to measure the ECL on loans and advances, which incorporates forward looking assumptions representing the Group and Company's view of the future economic state.
To comply with the requirements of AASB 9 the Group and Company have exercised judgement in defining indicators of what they consider represents a significant increase in credit risk (SICR) and designed ECL models to calculate their loss estimate. This estimation is inherently challenging and uses complex models based on the Group and Company's historical loss experience to predict probability of default and loss given default. The ECL staging requirements in the models incorporate estimates of default on both a 12 month and lifetime basis. Significant judgement is applied by the Group and Company in determining the
</td><td>
Our procedures included:
Testing key controls relating to the:

reconciliation of relevant data used in the ECL model and specific provisioning assessments to source systems;
Group and Company's monitoring mechanisms to identify loans having experienced a SICR or default event;
Group and Company's ECL model governance and validation processes; and
Group and Company's assessment and approval of the ECL estimate, application of forward looking macroeconomic assumptions and post-model adjustments.

In addition to controls testing, our further procedures included:
ECL Provisioning

assessing the appropriateness of the Group and Company's provisioning methodology against the requirements of the accounting standards and industry practice;
testing the completeness and accuracy of a sample of relevant data used within ECL models, such as checking year end balances to the general ledger, and repayment history

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nature and level of post-model adjustments. It is their policy to use these where the underlying models may not represent emerging risks or trends in the respective loan portfolios. We applied significant judgement to assess the impact of the forward-looking macroeconomic assumptions and factors outside of the control of the Group and Company on their ECL models. For credit-impaired loans, it is policy to identify specific ECLs based on the Group and the Company's judgement. This focuses on estimating when an impairment event has occurred and the present value of expected future cash flows, which have high estimation uncertainty. We focused on the high degree of estimation uncertainty related to the business and agribusiness loans as the forecast cash flows are dependent on future and uncertain events, for example, the timing and proceeds from the future sale of collateral.	and risk ratings to source systems; • working with our credit risk specialists, we assessed the ECL models' compliance with the Group and Company's model governance policies and the requirements of Australian Accounting Standards and industry practice; • working with our credit risk specialists to re-perform the ECL calculation for a sample of ECL models using the Group and Company's provisioning methodology and relevant data used within the ECL models. We compared our results to the amount recorded by the Group and Company; • assessing the ECL estimates against known variables and forward looking publicly available macro-economic information, such as forecasts for Real-GDP, residential house price index and unemployment rates; • assessing the post-model adjustments applied by the Group and Company to the ECL estimates. We compared the loan portfolios' underlying performance and characteristics to current market conditions, emerging risks and trends, using our knowledge of the industry and public views of commentators; Specific ECL provisioning • performing impairment assessments for a risk based sample of individual credit impaired loan exposures across the Group and the Company's loan portfolios. We did this by: • assessing the latest loan strategy papers for evidence of occurrence of impairment events; • comparing the Group and Company's timing and amount of forecast cash flows to the customer financial information and collateral valuations, and performed inquiries with credit risk officers; AASB 9 *Financial Instruments* – ECL provision disclosures • assessing the Group and Company's disclosures against the requirements of the Accounting Standards.

Financial instruments at fair value (Assets $5,774m and Liabilities $2,681m) – Group and Company	
Refer to Note 23.1, 25.2, 31.7, 31.9, 31.10 and 31.5 and to the Group Financial Report and Company Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The Group and Company enters into various financial instruments used for the management of financial risks such as valuation, liquidity and market risks. Financial instruments comprise of investment securities, trading securities, derivative assets and liabilities, and certain debt securities such as offshore commercial paper designated as measured at fair value through profit or loss. These financial instruments carried at fair value are a key audit matter due to the significance of financial instruments to the Group and Company's financial position. The Group and Company use a selection of methodologies and inputs (such as broker-quoted prices, interest rates, foreign exchange rates) in the valuation of these financial instruments. These impact the valuation adopted for each financial instrument type. Senior audit team effort and specialist involvement were required to assess these.	Our procedures included: • assessing the appropriateness of the valuation methodologies applied by the Group and Company against the requirements of the accounting standards and industry practice. • understanding the Group and Company's processes and testing key controls for the identification, measurement and management of valuation, liquidity and market risks. • with the involvement of our specialists, we assessed the fair value of a sample of: o Investment, trading securities and debt securities such as offshore commercial paper designated as measured at fair value through profit or loss: Re-performing the valuation by comparing the observable inputs, including broker-quoted prices, to externally sourced market data providers. o Derivative assets and liabilities: Using independent models to recalculate the valuation where the fair value was determined by the Group and Company using observable inputs. This included comparing a sample of observable inputs used in the Group and Company's derivative valuations to externally sourced market data, such as interest rates and foreign exchange rates. • assessing the disclosures against the requirements of the Accounting Standards.

IT systems and controls – Group and Company

Refer to the basis of preparation in Note 2 to the Group Financial Report and Company Financial Report

The key audit matter	How the matter was addressed in our audit
The Group and Company's business utilises a number of interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls for access and changes to IT systems are critical to the recording of financial information and the preparation of financial reports which provide a true and fair view of the Group and Company financial position and performance. • The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Group and Company's IT controls. KPMG IT specialists were used throughout the engagement as a core part of our audit team.	With the involvement of our IT specialists, we tested the control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems. Our procedures included: • Evaluating and testing the design and operating effectiveness of certain governance controls for the operational integrity of core systems relevant to financial reporting; • Testing controls for the access rights given to employees by checking them to approved records, and inspecting the reports regarding the granting and removal of access rights. We also tested controls related to monitoring of access rights; • Testing the operating effectiveness of automated controls key to our audit testing in relation to system calculations, the generation of reports, and operation of system enforced access controls.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

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

Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

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

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

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

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

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Suncorp-Metway Limited for the year ended 30 June 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited sections 2 to 8 of the Remuneration Report included in pages 23 to 40 of the Directors' report for the year ended 30 June 2019.

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

KPMG

KPMG

Scott Guse

Partner

Brisbane

7 August 2019