



AAI Limited and subsidiaries

ABN 48 005 297 807

**Directors' report
& consolidated
financial report**

**for the financial year ended
30 June 2014**

One Company
Many Brands



AAI Limited and subsidiaries

ABN 48 005 297 807

Consolidated financial report

for the financial year ended 30 June 2014

Contents

Directors' report	1
Lead Auditor's independence declaration	4
Statements of comprehensive income	5
Statements of financial position	6
Statements of changes in equity	7
Statements of cash flows	8
Notes to the consolidated financial statements	
1. Reporting entity	9
2. AAI Limited Group Restructure	9
3. Basis of preparation	9
4. Dividends	11
5. Segment reporting	11
6. Revenue	13
7. Incurred claims	13
8. Other underwriting expenses	16
9. Other expenses	16
10. Income tax	17
11. Receivables	19
12. Reinsurance and other recoveries receivable	19
13. Deferred insurance assets	20
14. Derivatives	20
15. Investment securities	21
16. Other assets	21
17. Goodwill	23
18. Payables and other liabilities	24
19. Employee benefits obligations	25
20. Unearned premium liabilities	30
21. Liability adequacy test	30
22. Outstanding claims liabilities	30
23. Subordinated notes	34
24. Share capital	35
25. Capital notes	35
26. Capital management and requirements	36

AAI Limited and subsidiaries

ABN 48 005 297 807

Consolidated financial report

for the financial year ended 30 June 2014

Contents (continued)

27.	Notes to the statements of cash flows	38
28.	Parent entity and subsidiaries	39
29.	Financial instruments	41
30.	Key management personnel disclosures	45
31.	Other related party disclosures	45
32.	Commitments	48
33.	Contingent assets and liabilities	48
34.	Significant accounting policies	49
35.	Risk management	59
36.	Auditors' remuneration	72
37.	Subsequent events	72
	Directors' declaration	73
	Independent auditor's report.....	74

Directors' report

The directors present their report together with the financial report of AAI Limited (the Company), being the Company and its subsidiaries and the Group's interest in jointly controlled entities, for the financial year ended 30 June 2014 and the auditor's report thereon.

Directors

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

Non-executive

Dr Zygmunt E Switkowski AO (Chairman)	Director since 2007, appointed Chairman 27 October 2011
Ilana R Atlas	Director since 2011
William J Bartlett	Director since 2007
Michael A Cameron	Director since 2012
Audette E Exel AO	Director since 2012
Ewoud J Kulk	Director since 2003
Dr Douglas F McTaggart	Director since 2012
Geoffrey T Ricketts CNZM	Director since 2003

Executive

Patrick J R Snowball	Director since 2009
----------------------	---------------------

Principal activities

The principal activities of the Group during the course of the financial year were the underwriting of general insurance and managing the returns of insurance and non-insurance funds marketed. The Company distributes products directly and through intermediated channels, including market leading brands AAMI, GIO, Suncorp and Vero, as well as niche brands Apia, Bingle, CIL, Insure My Ride, Just Car Insurance, Shannons, Terri Scheer and Resilium.

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

Operating and financial review

Operations

Consolidated profit after tax for the year ended 30 June 2014 was \$918.6 million compared to \$812.0 million for the year ended 30 June 2013.

The consolidated insurance trading result was \$1,094.9 million for the year to 30 June 2014 compared to \$888.5 million for the year to 30 June 2013. This provided an insurance trading ratio for the current year of 16.0% (2013: 13.4%).

Net earned premium increased by \$218.9 million or 3.3%, with premium increases across the key product lines. There was an increase in total sums insured outwards reinsurance expense, due to the purchase of the 3rd and 4th event covers and natural growth across the portfolio.

Net incurred claims increased by 4.4%, with the loss ratio increasing slightly, in part due to a change in discount rates. In addition, there were lower natural hazards costs and Queensland Home Quota Share Treaty reinsurance recoveries.

Underwriting expenses decreased 3.8%, largely due to lower fire service levy costs.

Investment income on insurance funds was \$475.4 million. Gains from narrowing credit spreads partially offset the impact of sustained lower risk-free and credit spread yields. Investment income on shareholder funds of \$226.0 million was supported by narrowing credit spreads and improved returns from equity investments.

Significant change in the state of affairs

On 1 July 2013, the Company entered into concurrent Schemes of Arrangement (under Division 3A of Part III of the Insurance Act) to transfer the insurance assets and liabilities of the following entities to the Company:

- Suncorp Metway Insurance Limited (**SMIL**)
- GIO General Limited (**GIO**)
- Australian Associated Motor Insurance Limited (**AAMI**)
- Australian Alliance Insurance Company Limited (**AAIC**)

Directors' report (continued)

The consolidation process involved both the transfer of the Australian general insurance assets and liabilities to the Company at carrying value effective 1 July 2013, as well as an internal restructure of its general insurance operations to reduce the number of business entities operating and regulated in Australia.

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

Environmental regulation

The Group's operations are not subject to any particular or significant environmental regulations under any law of the Commonwealth of Australia or any of its states or territories. The Group has not incurred any liability (including rectification costs) under any environmental legislation.

Dividends and capital transactions

The directors have declared a final dividend in respect of 2014 financial year of \$501.9 million to be paid on or before 29 September 2014. A final dividend of \$342.8 million (170 cents per share) was declared and paid in September 2013 in respect of the 2013 financial year. An interim dividend of \$311.4 million (163 cents per share) was paid in March 2014 (2013: \$470.0 million or 148 cents per fully paid share).

A quarterly dividend of \$0.5 million (0.5 cents per note) in March 2014 and \$1.4 million (1 cent per note) in June 2014 was paid in respect of a \$110.0 million capital note issued from the Company to the parent Company on 11 February 2014. A further \$400.0 million capital note was issued on 27 June 2014.

The directors have declared dividends on capital notes of \$5.2 million to be paid on or before 17 September 2014.

Further details of dividends paid and capital notes are set out note 4 and 25 to the financial statements respectively.

In the 2014 financial year, the Company bought back 145,864,124 million shares for \$1,458.7 million for licence consolidation and capital management purposes. In the prior year, there was an issuance of 16,500,000 shares in return for cash of \$165.0 million for capital purposes.

Further details of equity transactions are set out in the note 24 to the financial statements.

Events subsequent to reporting date

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

Likely developments

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

Indemnification and insurance of officers

Indemnification

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

Insurance premiums

During the financial year, the ultimate parent entity has paid insurance premiums on behalf of the Company in respect of a Directors' and Officers' Liability insurance contract. The insurance contract insures each person who is or has been a director or executive officer (as defined in the *Corporations Act 2001*) of the Company against certain liabilities arising in the course of their duties to the Company and its subsidiaries. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance contract as disclosure is prohibited under the terms of the contract.

Directors' report (continued)

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the financial year ended 30 June 2014.

Rounding off

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, and in accordance with the Class Order, amounts in the financial report and directors' report have been rounded to the nearest one hundred thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors.



Dr Zygmunt E Switkowski AO
Director



Patrick J R Snowball
Managing Director and Group CEO

13 August 2014



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

To: the directors of AAI Limited

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

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'Paul Ruiz'.

Paul Ruiz
Partner

Brisbane

13 August 2014

Statements of comprehensive income
for the financial year ended 30 June 2014

	Note	Consolidated		Company	
		2014 \$m	2013 \$m	2014 \$m	2013 \$m
Premium income	6	7,683.2	7,440.9	7,683.2	1,652.4
Outwards reinsurance premium expense	13	(842.3)	(818.9)	(842.3)	(347.7)
Net premium revenue		6,840.9	6,622.0	6,840.9	1,304.7
Claims expense	7.1	(5,705.0)	(5,634.7)	(5,705.0)	(1,107.2)
Reinsurance and other recoveries revenue	6	962.4	1,092.5	962.4	322.5
Net claims incurred		(4,742.6)	(4,542.2)	(4,742.6)	(784.7)
Acquisition costs	13	(953.1)	(887.7)	(953.1)	(283.8)
Other underwriting expenses	8	(624.0)	(752.1)	(624.0)	(227.5)
Underwriting expenses		(1,577.1)	(1,639.8)	(1,577.1)	(511.3)
Other insurance income	6	98.3	128.5	98.3	57.0
Underwriting result		619.5	568.5	619.5	65.7
Investment income on insurance funds	6	475.4	320.0	475.4	56.5
Insurance trading result		1,094.9	888.5	1,094.9	122.2
Investment income on shareholder funds	6	247.1	296.9	969.8	776.7
Investment expense on shareholder funds		(21.1)	(25.4)	(20.4)	(6.8)
Other income	6	99.9	118.3	93.9	1.4
Other expenses	9	(111.6)	(127.5)	(106.7)	(36.9)
Profit before income tax		1,309.2	1,150.8	2,031.5	856.6
Income tax expense	10	(390.6)	(338.8)	(389.9)	(69.8)
Profit for the financial year		918.6	812.0	1,641.6	786.8
Other comprehensive income / (loss)					
<i>Items that will not be reclassified to profit or loss:</i>					
Actuarial gains on defined benefit plans	19.2.1	8.5	8.3	8.0	8.0
Income tax expense	10.4	(2.5)	(2.5)	(2.4)	(2.4)
		6.0	5.8	5.6	5.6
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of cash flow hedge		1.3	(10.9)	1.3	(10.9)
Income tax (expense) / benefit	10.4	(0.4)	3.3	(0.4)	3.3
		0.9	(7.6)	0.9	(7.6)
Total other comprehensive income		6.9	(1.8)	6.5	(2.0)
Total comprehensive income for the financial year		925.5	810.2	1,648.1	784.8
Profit for the financial year attributable to:					
Owners of the Company		918.6	812.0	1,641.6	786.8
Profit for the financial year		918.6	812.0	1,641.6	786.8
Total comprehensive income for the financial year attributable to:					
Owners of the Company		925.5	810.2	1,648.1	784.8
Total comprehensive income for the financial year		925.5	810.2	1,648.1	784.8

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

Statements of financial position

as at 30 June 2014

	Note	Consolidated		Company	
		2014 \$m	2013 \$m	2014 \$m	2013 \$m
Assets					
Cash and cash equivalents		221.8	123.3	167.6	46.5
Receivables	11	2,516.4	2,296.9	2,516.7	671.0
Derivatives	14	22.9	39.4	22.9	22.4
Investment securities	15	12,084.6	11,579.5	12,084.6	2,971.0
Reinsurance and other recoveries	12	1,376.1	1,496.3	1,376.1	495.5
Deferred insurance assets	13	1,185.9	1,236.0	1,185.9	465.9
Deferred tax assets	10.3	1.5	-	-	-
Other assets	16	122.3	127.8	107.7	35.8
Investment in subsidiaries		-	-	83.2	2,268.5
Goodwill	17	54.8	1,111.4	22.0	11.3
Total assets		17,586.3	18,010.6	17,566.7	6,987.9
Liabilities					
Derivatives	14	149.3	115.6	149.3	77.8
Payables and other liabilities	18	1,514.5	1,345.4	1,788.8	840.1
Employee benefit obligations	19	77.8	86.2	39.0	46.6
Unearned premium liabilities	20	4,083.4	4,034.9	4,083.4	873.6
Outstanding claims liabilities	22.1	8,161.7	8,134.0	8,161.7	1,850.4
Subordinated notes	23	727.0	719.8	483.3	487.6
Deferred tax liabilities	10.3	-	22.6	11.0	5.0
Total liabilities		14,713.7	14,458.5	14,716.5	4,181.1
Net assets		2,872.6	3,552.1	2,850.2	2,806.8
Equity					
Share capital		950.2	2,409.1	950.0	2,408.6
Capital notes	25	510.0	-	510.0	-
Reserves		(2.4)	(3.3)	(2.4)	(3.3)
Retained profits		1,414.8	1,146.3	1,392.6	401.5
Total equity		2,872.6	3,552.1	2,850.2	2,806.8

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 2014

	Note	Share capital	Capital notes	Hedging reserve	Retained profits	Total equity
		\$m	\$m	\$m	\$m	\$m
Consolidated						
Balance as at 1 July 2012		2,244.0	-	4.3	1,146.5	3,394.8
Profit for the financial year		-	-	-	812.0	812.0
Other comprehensive income		-	-	(7.6)	5.8	(1.8)
Total comprehensive income		-	-	(7.6)	817.8	810.2
<i>Transactions with owners, recorded directly in equity</i>						
Share Issuances		165.0	-	-	-	165.0
Dividends paid	4	-	-	-	(818.0)	(818.0)
Share-based payments		0.1	-	-	-	0.1
Balance as at 30 June 2013		2,409.1	-	(3.3)	1,146.3	3,552.1
Profit for the financial year		-	-	-	918.6	918.6
Other comprehensive income		-	-	0.9	6.0	6.9
Total comprehensive income		-	-	0.9	924.6	925.5
<i>Transactions with owners, recorded directly in equity</i>						
Share Issuances		-	510.0	-	-	510.0
Share buyback		(1,458.7)	-	-	-	(1,458.7)
Dividends paid	4	-	-	-	(656.1)	(656.1)
Share-based payments		(0.2)	-	-	-	(0.2)
Balance as at 30 June 2014		950.2	510.0	(2.4)	1,414.8	2,872.6
Company						
Balance as at 1 July 2012		2,243.5	-	4.3	427.1	2,674.9
Profit for the financial year		-	-	-	786.8	786.8
Other comprehensive income		-	-	(7.6)	5.6	(2.0)
Total comprehensive income		-	-	(7.6)	792.4	784.8
<i>Transactions with owners, recorded directly in equity</i>						
Share Issuances		165.0	-	-	-	165.0
Dividends paid	4	-	-	-	(818.0)	(818.0)
Share-based payments		0.1	-	-	-	0.1
Balance as at 30 June 2013		2,408.6	-	(3.3)	401.5	2,806.8
Profit for the financial year		-	-	-	1,641.6	1,641.6
Other comprehensive income		-	-	0.9	5.6	6.5
Total comprehensive income		-	-	0.9	1,647.2	1,648.1
<i>Transactions with owners, recorded directly in equity</i>						
Share Issuances		-	510.0	-	-	510.0
Share buyback		(1,458.7)	-	-	-	(1,458.7)
Dividends paid	4	-	-	-	(656.1)	(656.1)
Share-based payments		0.1	-	-	-	0.1
Balance as at 30 June 2014		950.0	510.0	(2.4)	1,392.6	2,850.2

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 2014

	Note	Consolidated		Company	
		2014 \$m	2013 \$m	2014 \$m	2013 \$m
Cash flows from operating activities					
Premiums received		8,947.4	8,786.3	8,947.4	1,749.9
Reinsurance and other recoveries received		1,178.9	1,297.6	1,178.9	344.7
Interest received		639.2	664.5	639.2	164.7
Dividends received		-	-	2.9	625.9
Other revenue received		86.3	111.7	86.3	-
Claims paid		(6,245.0)	(6,345.8)	(6,245.0)	(1,211.3)
Outwards reinsurance premiums paid		(929.3)	(896.5)	(929.3)	(428.5)
Acquisition costs paid		(983.4)	(834.1)	(983.4)	(48.0)
Income tax paid		(331.7)	(188.4)	(331.7)	(87.1)
Finance costs paid		(35.0)	(37.3)	(32.8)	(29.1)
Underwriting and other operating expenses paid		(1,405.6)	(1,279.6)	(1,373.8)	(153.8)
Net cash from operating activities	27	921.8	1,278.4	958.7	927.4
Cash flows from investing activities					
Payment for shares in subsidiaries		-	-	-	(446.3)
Payments for investment securities		(12,530.8)	(16,979.6)	(12,530.8)	(4,739.4)
Proceeds from sale of investment securities		12,203.7	16,325.3	12,203.7	4,634.8
Proceeds from sale of investment properties		-	96.0	-	-
Proceeds from related entities		-	-	-	13.4
Net cash used in investing activities		(327.1)	(558.3)	(327.1)	(537.5)
Cash flows from financing activities					
Shares (buyback) / issued		(402.0)	165.0	(402.0)	165.0
Assumption of subordinated notes from subsidiary		-	-	-	292.5
Cash received on transfer of net assets		-	-	10.1	-
Capital notes issued		510.0	-	510.0	-
Dividend received from parent entity		55.4	-	55.4	-
Dividends paid	4	(656.1)	(818.0)	(656.1)	(818.0)
Net cash used in financing activities		(492.7)	(653.0)	(482.6)	(360.5)
Net increase in cash and cash equivalents		102.0	67.1	149.0	29.4
Cash and cash equivalents at the beginning of the financial year		119.8	52.7	18.6	(10.8)
Cash and cash equivalents at the end of the financial year		221.8	119.8	167.6	18.6

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

Notes to the consolidated financial statements

1. Reporting entity

AAI Limited (the **Company**) is a company limited by shares, incorporated and domiciled in Australia. Its registered office is Level 28, 266 George Street, Brisbane, QLD 4000.

The consolidated financial statements of the Company for the financial year ended 30 June 2014 comprise the Company and its subsidiaries (the **Group**) and the Group's interest in jointly controlled entities. The consolidated financial statements were authorised for issue by the Board of Directors on 13 August 2014.

The Company's parent entity is Suncorp Insurance Holdings Limited, with Suncorp Group Limited being the ultimate parent entity. Suncorp Group is defined to be Suncorp Group Limited and its subsidiaries.

2. AAI Limited Group Restructure

On 1 July 2013, the Group completed a restructure which resulted in the transfer of general insurance assets and liabilities from four licensed general insurance subsidiaries to the Company, as well as the transfer of ownership of certain subsidiaries from their existing parent entity to the Company.

The transfer of general insurance assets and liabilities from Australian Alliance Insurance Company Limited, Australian Associated Motor Insurers Limited, GIO General Limited and Suncorp Metway Insurance Limited to the Company was effected by concurrent schemes of arrangement (under Division 3A of Part III of the *Insurance Act*). The schemes of arrangement were approved by the Federal Treasurer, the Australian Prudential Regulation Authority (**APRA**) and the Federal Court of Australia.

Further details of the general insurance assets and liabilities transferred and the transfer of ownership of certain subsidiaries from their existing parent entity to the Company is set out in note 28.5. Licence consolidation.

The comparative information has not been restated and is presented consistently with the disclosures made in the Company's and consolidated financial statements for the year ended 30 June 2013.

3. Basis of preparation

The Group is a for-profit entity and is involved in the underwriting of general insurance and managing the returns of insurance and non-insurance funds. The consolidated financial statements have been prepared on the historical cost basis unless the application of fair value measurements are required by the relevant accounting standards. An exception exists regarding the measurement of defined benefit superannuation scheme surplus (deficit) which is described in note 19.2.

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

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

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

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

a) AASB 119 *Employee Benefits (2011)*

From 1 July 2013, the Group applied amendments to AASB 119 *Employee Benefits (2011)*. The change in accounting policy resulted in a change to the basis for determining the income or expense related to the Group's post-employment defined benefit plans and a reclassification of annual leave from 'short-term employee benefits' to 'other long-term employee benefits'. Additional disclosures, in line with the requirements of the amendment, have been included in note 19.

b) AASB 7 *Financial Instruments – Disclosures*

From 1 July 2013, the Group applied amendments to AASB 7 *Financial Instruments – Disclosures* outlined in AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* (June 2012). As a result of these amendments, the Group has expanded its disclosures about the offsetting of financial assets and financial liabilities in note 29.4.

Notes to the consolidated financial statements (continued)

3. Basis of preparation (continued)

The Group's risk management objectives and structure, including the management of exposures arising from financial instruments, are detailed in note 35.1.

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

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

Amounts expected to be recovered or settled no more than twelve months after the reporting period, are classified as 'current'. Amounts expected to be recovered or settled more than twelve months after the reporting period, are classified as 'non-current'. The Company and consolidated statement of financial position have been presented on a liquidity basis in the current financial year. The comparative statements of financial position have also been represented on a liquidity basis.

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

3.1. Statement of compliance

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

3.2. Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and 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, judgements and assumptions are discussed in the following notes:

- Estimation of outstanding claims liabilities and assets arising from reinsurance contracts and other recoveries (refer note 12)
- Employee benefit obligations (refer note 19)
- Liability adequacy test (refer note 21)
- Financial instruments (refer note 29)
- Derivatives (refer note 14)
- Insurance managed funds income (refer note 34.4.5)

Details of specific actuarial techniques and assumptions used in calculating the outstanding claims liability at each reporting date are described in note 22.

Notes to the consolidated financial statements (continued)

4. Dividends

Consolidated and Company		2014	2013
		\$m	\$m
Ordinary shares			
September 2012	110 cents per fully paid share	-	348.0
April 2013	148 cents per fully paid share	-	470.0
September 2013	170 cents per fully paid share	342.8	-
March 2014	163 cents per fully paid share	311.4	-
Total dividends paid on ordinary shares		654.2	818.0
Capital notes			
March 2014	0.5 cents per note	0.5	-
June 2014	1.0 cent per note	1.4	-
Total dividends paid on capital notes		1.9	-
Total dividends paid		656.1	818.0

The capital notes are unsecured and pay periodic, non-cumulative dividends to the holder, based on a set formula. Such dividends are at the discretion of the directors. The directors have declared dividends on capital notes of \$5.2 million to be paid on or before 17 September 2014. The directors have declared a final dividend in respect of 2014 financial year of \$501.9 million to be paid on or before 29 September 2014.

5. Segment reporting

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

5.1. Segment information

The Group comprises the following operating segments:

Segment	Products and services
Personal insurance	Provision of personal insurance products to customers including home and contents insurance, motor insurance, boat insurance, travel insurance and personal effects cover.
Commercial insurance	Provision of commercial insurance products to customers including commercial motor insurance, commercial property insurance, marine insurance, industrial special risks insurance, public liability and professional indemnity insurance, workers' compensation insurance and compulsory third party insurance.

Revenues and expenses occurring between segments are subject to arm's length transfer pricing arrangements. Inter-segment transactions which are eliminated on consolidation are reported on a gross basis.

Notes to the consolidated financial statements (continued)

5. Segment information (continued)

	Personal		Commercial		Total	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Revenue from external customers	5,653.7	5,587.4	3,761.4	3,474.2	9,415.1	9,061.6
Total segment revenue	5,653.7	5,587.4	3,761.4	3,474.2	9,415.1	9,061.6
Segment profit before tax	765.3	672.5	578.1	514.2	1,343.4	1,186.7
Segment income tax expense	(231.5)	(198.1)	(171.9)	(151.5)	(403.4)	(349.6)
Segment profit after income tax	533.8	474.4	406.2	362.7	940.0	837.1
Other segment disclosures						
Interest income	232.1	152.9	251.5	351.0	483.6	503.9
Interest expense	(22.5)	(23.7)	(12.5)	(13.6)	(35.0)	(37.3)
Depreciation and amortisation expense	(8.5)	(8.3)	(7.5)	(7.6)	(16.0)	(15.9)

5.2. Reconciliation of segment profit before tax

Consolidated	2014 \$m	2013 \$m
Segment profit before income tax	1,343.4	1,186.7
Share of profit of equity accounted investees	4.8	4.5
Other corporate expenses	(39.0)	(40.4)
Profit before income tax	1,309.2	1,150.8

5.3. Reconciliation of segment revenue

Consolidated	2014 \$m	2013 \$m
Segment revenue	9,415.1	9,061.6
Share of profit of equity accounted investees	4.8	4.5
Fire service levies	145.2	323.0
Other corporate adjustments	1.2	8.0
Total revenue	9,566.3	9,397.1

5.4. Geographical segments

Whilst some business activities took place in New Zealand, the Group's revenue from external customers is predominantly attributed to Australia. There are no significant assets located in foreign countries.

5.5. Major customers

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

Notes to the consolidated financial statements (continued)

6. Revenue

	Consolidated		Company	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Insurance income				
Gross premium income	7,683.2	7,440.9	7,683.2	1,452.4
Inwards reinsurance premium income	-	-	-	200.0
	7,683.2	7,440.9	7,683.2	1,652.4
Reinsurance and other recoveries income	962.4	1,092.5	962.4	322.5
Other income	98.3	128.5	98.3	57.0
Total insurance income	8,743.9	8,661.9	8,743.9	2,031.9
Investment income				
Interest income	483.6	503.9	483.3	131.3
Dividend income from related entities	-	-	723.0	625.9
Changes in fair value of financial assets and liabilities	117.6	29.3	117.6	49.4
Other investment income	121.3	83.7	121.3	26.6
Total investment income	722.5	616.9	1,445.2	833.2
Investment income on insurance funds	475.4	320.0	475.4	56.5
Investment income on shareholder funds	247.1	296.9	969.8	776.7
	722.5	616.9	1,445.2	833.2
Other income				
Insurance managed fund income	93.8	106.3	93.8	-
Other income	1.3	7.5	0.1	1.3
Share of net profit on equity-accounted investees	4.8	4.5	-	0.1
Total other income	99.9	118.3	93.9	1.4
Total income	9,566.3	9,397.1	10,283.0	2,866.5

7. Incurred claims

7.1. Gross incurred claims

	Consolidated		Company	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Direct	5,707.8	5,639.3	5,707.8	958.9
Inwards reinsurance	(2.8)	(4.6)	(2.8)	148.3
Gross incurred claims	5,705.0	5,634.7	5,705.0	1,107.2

Notes to the consolidated financial statements (continued)

7. Incurred claims (continued)

7.2. Net incurred claims

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

Consolidated	2014			2013		
	Current year \$m	Prior year \$m	Total \$m	Current year \$m	Prior year \$m	Total \$m
Direct business						
<i>Gross claims incurred and related expenses</i>						
Undiscounted	6,284.7	(621.9)	5,662.8	6,368.4	(537.7)	5,830.7
Discount and discount movement	(191.3)	236.3	45.0	(205.1)	13.7	(191.4)
Gross claims incurred discounted	6,093.4	(385.6)	5,707.8	6,163.3	(524.0)	5,639.3
<i>Reinsurance and other recoveries</i>						
Undiscounted	(1,158.0)	199.6	(958.4)	(1,275.7)	157.7	(1,118.0)
Discount and discount movement	29.7	(33.9)	(4.2)	29.8	(5.3)	24.5
Reinsurance and other recoveries discounted	(1,128.3)	165.7	(962.6)	(1,245.9)	152.4	(1,093.5)
Net incurred claims - direct business	4,965.1	(219.9)	4,745.2	4,917.4	(371.6)	4,545.8
Inwards reinsurance						
<i>Gross claims incurred and related expenses</i>						
Undiscounted	0.7	(5.3)	(4.6)	-	(3.3)	(3.3)
Discount and discount movement	-	1.8	1.8	-	(1.3)	(1.3)
Gross claims incurred discounted	0.7	(3.5)	(2.8)	-	(4.6)	(4.6)
<i>Reinsurance and other recoveries</i>						
Undiscounted	-	0.2	0.2	0.1	1.1	1.2
Discount and discount movement	-	-	-	-	(0.2)	(0.2)
Reinsurance and other recoveries discounted	-	0.2	0.2	0.1	0.9	1.0
Net incurred claims - inwards reinsurance	0.7	(3.3)	(2.6)	0.1	(3.7)	(3.6)
Total net incurred claims	4,965.8	(223.2)	4,742.6	4,917.5	(375.3)	4,542.2

Notes to the consolidated financial statements (continued)

7. Incurred claims (continued)

7.2. Net incurred claims (continued)

Company	2014			2013		
	Current year \$m	Prior year \$m	Total \$m	Current year \$m	Prior year \$m	Total \$m
Direct business						
<i>Gross claims incurred and related expenses</i>						
Undiscounted	6,284.7	(621.9)	5,662.8	1,008.9	40.8	1,049.7
Discount and discount movement	(191.3)	236.3	45.0	(29.5)	(61.3)	(90.8)
Gross claims incurred discounted	6,093.4	(385.6)	5,707.8	979.4	(20.5)	958.9
<i>Reinsurance and other recoveries</i>						
Undiscounted	(1,158.0)	199.6	(958.4)	(265.5)	(72.8)	(338.3)
Discount and discount movement	29.7	(33.9)	(4.2)	7.0	8.7	15.7
Reinsurance and other recoveries discounted	(1,128.3)	165.7	(962.6)	(258.5)	(64.1)	(322.6)
Net incurred claims - direct business	4,965.1	(219.9)	4,745.2	720.9	(84.6)	636.3
Inwards reinsurance						
<i>Gross claims incurred and related expenses</i>						
Undiscounted	0.7	(5.3)	(4.6)	148.9	(0.5)	148.4
Discount and discount movement	-	1.8	1.8	-	(0.1)	(0.1)
Gross claims incurred discounted	0.7	(3.5)	(2.8)	148.9	(0.6)	148.3
<i>Reinsurance and other recoveries</i>						
Undiscounted	-	0.2	0.2	0.1	-	0.1
Reinsurance and other recoveries discounted	-	0.2	0.2	0.1	-	0.1
Net incurred claims - inwards reinsurance	0.7	(3.3)	(2.6)	149.0	(0.6)	148.4
Total net incurred claims	4,965.8	(223.2)	4,742.6	869.9	(85.2)	784.7

7.3. Explanation of material variances – Direct business

The impact of movements in prior year Group and Company net provisions on the net incurred cost for 2014 amounted to a decrease of \$223.2 million. This was primarily due to the release of risk margins as claims were paid and valuation releases arising from favourable claims experience.

The sensitivity of net profit in claims assumptions, experience and risk margins, are set out in note 22.6.

Notes to the consolidated financial statements (continued)

8. Other underwriting expenses

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Staff expenses				
Wages, salaries, share-based payments and other staff costs ¹	263.7	273.6	263.7	112.6
Total staff expenses	263.7	273.6	263.7	112.6
Occupancy and equipment expenses				
Operating lease rentals	5.1	6.6	5.1	2.0
Other occupancy costs	23.3	21.3	23.3	4.0
Total equipment and occupancy costs	28.4	27.9	28.4	6.0
Information technology and communication				
Technology	16.3	15.4	16.3	6.9
Communications	16.8	17.1	16.8	5.2
Total information technology and communication expenses	33.1	32.5	33.1	12.1
Other expenses				
Levies and other charges	180.4	304.6	180.4	71.7
Advertising and promotion expenses	42.2	40.6	42.2	4.3
Other	76.2	72.9	76.2	20.8
Total other expenses	298.8	418.1	298.8	96.8
Total other underwriting expenses	624.0	752.1	624.0	227.5

1. Includes shares granted by the Suncorp Group to each eligible employee of ordinary shares of the Company to the value of \$1,000 (2013: \$1000) under the Exempt Employee Share Plan (EESP) for the financial year. These shares are acquired on-market for allocation to employees by the share plan in October 2014 (2013: October 2013).

9. Other expenses

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Other operating expenses				
Insurance managed fund expenses	73.6	80.0	73.6	0.2
Other	3.0	10.2	0.3	7.6
Total other operating expenses	76.6	90.2	73.9	7.8
Finance costs				
Interest expense	33.0	34.0	19.6	17.8
Other finance costs	2.0	3.3	13.2	11.3
Total finance costs	35.0	37.3	32.8	29.1
Total other expenses	111.6	127.5	106.7	36.9

Notes to the consolidated financial statements (continued)

10. Income tax

10.1. Income tax expense

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Profit before tax	1,309.2	1,150.8	2,031.5	856.6
Income tax using the domestic corporation tax rate of 30% (2013: 30%)	392.8	345.2	609.5	257.0
Movement in income tax expense due to:				
Non-deductible expenses	3.6	0.2	1.3	0.3
Non-deductible write-downs	(0.6)	-	-	2.3
Imputation gross-up on dividends received	1.6	2.0	1.2	0.6
Intercompany dividend elimination	-	-	(216.9)	(187.8)
Income tax offsets and credits	(6.1)	(7.5)	(4.8)	(2.6)
Other	(0.7)	(1.5)	(0.4)	-
	390.6	338.4	389.9	69.8
Under provision in prior financial years	-	0.4	-	-
Income tax expense	390.6	338.8	389.9	69.8
Income tax expense recognised in profit consists of:				
Current tax expense				
Current period	417.4	364.1	418.0	64.6
Adjustments for prior financial years	0.2	(1.7)	0.2	(0.2)
	417.6	362.4	418.2	64.4
Deferred tax expense				
Origination and reversal of temporary differences	(27.0)	(23.6)	(28.3)	5.4
Total income tax expense	390.6	338.8	389.9	69.8

10.2. Current tax liabilities

In accordance with the tax consolidation legislation, the ultimate parent entity as the head entity of the Australian tax-consolidated group has assumed the current tax liability recognised by the members of the tax-consolidated group.

10.3. Deferred tax assets and liabilities

Consolidated	2014	2013	2014	2013	2014	2013
	Deferred tax assets		Deferred tax liabilities		Net	
	\$m	\$m	\$m	\$m	\$m	\$m
Investments	-	-	(86.5)	(97.9)	(86.5)	(97.9)
Employee benefits	23.5	26.0	-	-	23.5	26.0
Provisions	80.8	78.6	-	-	80.8	78.6
Other items	13.8	5.0	(30.1)	(34.3)	(16.3)	(29.3)
Tax assets / (liabilities)	118.1	109.6	(116.6)	(132.2)	1.5	(22.6)
Set-off of tax	(116.6)	(109.6)	116.6	109.6	-	-
Net tax assets / (liabilities)	1.5	-	-	(22.6)	1.5	(22.6)

Consolidated	2014	2013	2014	2013
	Deferred tax assets		Deferred tax liabilities	
	\$m	\$m	\$m	\$m
Balance at the beginning of the financial year	109.6	119.0	(132.2)	(165.2)
Credited (charged) to profit or loss	11.0	(7.0)	16.0	29.8
Credited (charged) to equity	(2.5)	(2.4)	(0.4)	3.2
Balance at the end of the financial year	118.1	109.6	(116.6)	(132.2)

Notes to the consolidated financial statements (continued)

10. Income tax (continued)

10.3. Deferred tax assets and liabilities (continued)

Company	2014	2013	2014	2013	2014	2013
	Deferred tax assets		Deferred tax liabilities		Net	
	\$m	\$m	\$m	\$m	\$m	\$m
Other investments	-	-	(86.4)	(26.7)	(86.4)	(26.7)
Employee benefits	11.7	14.0	-	-	11.7	14.0
Provisions	79.4	15.9	-	-	79.4	15.9
Other items	13.9	-	(29.6)	(8.2)	(15.7)	(8.2)
Tax assets / (liabilities)	105.0	29.9	(116.0)	(34.9)	(11.0)	(5.0)
Set-off of tax	(105.0)	(29.9)	105.0	29.9	-	-
Net tax assets / (liabilities)	-	-	(11.0)	(5.0)	(11.0)	(5.0)

Company	2014	2013	2014	2013
	Deferred tax assets		Deferred tax liabilities	
	\$m	\$m	\$m	\$m
Balance at the beginning of the financial year	29.9	36.7	(34.9)	(36.3)
Credited / (charged) to profit or loss	11.5	(4.4)	16.8	(1.9)
Credited / (charged) to equity	(2.4)	(2.4)	(0.4)	3.3
Transfer of assets / liabilities Group Companies	66.0	-	(97.5)	-
Balance at the end of the financial year	105.0	29.9	(116.0)	(34.9)

There are no unrecognised deferred tax assets and liabilities for the Group or the Company.

10.4. Deferred tax recognised directly in equity

	Consolidated		Company	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Other comprehensive income				
<i>In respect of items that may be reclassified subsequently to profit and loss:</i>				
Net change in fair value of cash flow hedges	0.4	(3.3)	0.4	(3.3)
<i>In respect of items that will not be reclassified subsequently to profit and loss:</i>				
Actuarial gains on defined benefit plans	2.5	2.5	2.4	2.4
	2.9	(0.8)	2.8	(0.9)

Notes to the consolidated financial statements (continued)

11. Receivables

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Trade receivables				
Premiums outstanding	2,152.7	2,030.8	2,152.3	525.4
Amounts due from reinsurers	48.4	38.0	48.4	18.2
Insurance managed funds receivable	11.6	4.1	11.5	-
Amounts due from related entities	196.3	199.1	195.1	82.5
	2,409.0	2,272.0	2,407.3	626.1
Provision for impairment	(6.1)	(6.7)	(6.1)	(2.7)
	2,402.9	2,265.3	2,401.2	623.4
Other receivables				
Amounts due from subsidiaries	-	-	8.6	34.7
Amounts due from parent entity	-	0.2	-	0.2
Amounts due from ultimate parent entity	0.5	-	-	-
Other receivables	113.0	31.4	106.9	12.7
	113.5	31.6	115.5	47.6
Total receivables	2,516.4	2,296.9	2,516.7	671.0
Current	2,334.8	2,096.4	2,335.1	648.7
Non-current	181.6	200.5	181.6	22.3
Total receivables	2,516.4	2,296.9	2,516.7	671.0

12. Reinsurance and other recoveries receivable

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Expected future reinsurance and other recoveries undiscounted	1,491.4	1,615.9	1,491.4	528.9
Discount to present value	(115.3)	(119.6)	(115.3)	(33.4)
Total reinsurance and other recoveries receivable	1,376.1	1,496.3	1,376.1	495.5
Current	625.0	750.2	625.0	270.5
Non-current	751.1	746.1	751.1	225.0
Total reinsurance and other recoveries receivable	1,376.1	1,496.3	1,376.1	495.5
Reconciliation of movements in reinsurance and other recoveries receivable				
Balance at the beginning of the financial year	1,496.3	1,520.1	495.5	460.9
Reinsurance and other recoveries revenue	962.4	1,092.5	962.4	322.5
Reinsurance and other recoveries received	(1,082.6)	(1,116.3)	(1,082.6)	(287.9)
Transfer in of reinsurance and other recoveries receivable	-	-	1,000.8	-
Balance at the end of the financial year	1,376.1	1,496.3	1,376.1	495.5

Notes to the consolidated financial statements (continued)

13. Deferred insurance assets

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Deferred acquisition costs - current	1,185.9	1,236.0	1,185.9	465.9
Reconciliation of movements in deferred acquisition costs				
Balance at the beginning of the financial year	487.9	429.8	182.4	155.2
Acquisition costs deferred	971.1	945.8	971.1	311.0
Amortisation charged to profit or loss	(953.1)	(887.7)	(953.1)	(283.8)
Transfer in of deferred acquisition costs	-	-	305.5	-
Balance at the end of the financial year	505.9	487.9	505.9	182.4
Reconciliation of movements in deferred reinsurance assets				
Balance at the beginning of the financial year	629.6	593.1	257.2	223.6
Reinsurance premiums paid during the year	822.7	855.4	822.7	381.3
Reinsurance premiums charged to profit or loss	(842.3)	(818.9)	(842.3)	(347.7)
Transfer in of deferred reinsurance assets	-	-	372.4	-
Balance at the end of the financial year	610.0	629.6	610.0	257.2
Reconciliation of movements in other deferred expenses				
Balance at the beginning of the financial year	118.5	154.2	26.3	32.5
Other expenses deferred	131.9	268.9	131.9	65.5
Amortisation charged to profit or loss	(180.4)	(304.6)	(180.4)	(71.7)
Transfer in of other deferred expenses	-	-	92.2	-
Balance at the end of the financial year	70.0	118.5	70.0	26.3

14. Derivatives

Consolidated	2014			2013		
	Notional Value \$m	Fair Value		Notional Value \$m	Fair Value	
		Asset \$m	Liability \$m		Asset \$m	Liability \$m
Exchange rate related contracts						
Forward foreign exchange contracts	269.2	1.3	(1.1)	272.8	1.6	(10.5)
Cross currency swaps	291.0	-	(48.7)	291.0	-	(63.1)
	560.2	1.3	(49.8)	563.8	1.6	(73.6)
Interest rate related contracts						
Interest rate options	-	-	-	150.0	1.7	(2.6)
Swaptions	-	-	-	127.6	0.3	(0.1)
Interest rate swaps	1,552.3	20.6	(72.2)	2,146.2	35.8	(39.3)
Interest rate futures	2,997.1	-	(26.8)	1,015.1	-	-
	4,549.4	20.6	(99.0)	3,438.9	37.8	(42.0)
Equity contracts						
Equity futures	99.0	1.0	(0.5)	-	-	-
	99.0	1.0	(0.5)	-	-	-
Total derivative exposures - current	5,208.6	22.9	(149.3)	4,002.7	39.4	(115.6)

Notes to the consolidated financial statements (continued)

14. Derivatives (continued)

Company	2014			2013		
	Notional Value \$m	Fair Value		Notional Value \$m	Fair Value	
		Asset \$m	Liability \$m		Asset \$m	Liability \$m
Exchange rate related contracts						
Forward foreign exchange contracts	269.2	1.3	(1.1)	139.8	0.6	(5.2)
Cross currency swaps	291.0	-	(48.7)	291.0	-	(63.1)
	560.2	1.3	(49.8)	430.8	0.6	(68.3)
Interest rate related contracts						
Interest rate options	-	-	-	28.8	0.4	(0.5)
Swaptions	-	-	-	45.8	0.1	(0.0)
Interest rate swaps	1,552.3	20.6	(72.2)	638.3	21.3	(9.0)
Interest rate futures	2,997.1	-	(26.8)	414.4	-	-
	4,549.4	20.6	(99.0)	1,127.3	21.8	(9.5)
Equity contracts						
Equity futures	99.0	1.0	(0.5)	-	-	-
	99.0	1.0	(0.5)	-	-	-
Total derivative exposures - current	5,208.6	22.9	(149.3)	1,558.1	22.4	(77.8)

A description of how the Group uses derivatives can be found in note 35.6.

15. Investment securities

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Interest bearing securities				
Debentures and corporate bonds	5,555.7	5,768.5	5,555.7	1,732.7
Government and semi-government securities	4,527.3	4,385.8	4,527.3	810.4
Other interest bearing securities	1,505.4	869.5	1,505.4	154.7
Total interest bearing securities	11,588.4	11,023.8	11,588.4	2,697.8
Unit trusts, equities	496.2	555.7	496.2	273.2
Total investment securities - current	12,084.6	11,579.5	12,084.6	2,971.0

16. Other assets

		Consolidated		Company	
		2014 \$m	2013 \$m	2014 \$m	2013 \$m
Accrued interest		93.3	105.8	93.3	28.7
Prepayments		9.1	3.3	9.0	1.4
Interest in equity accounted investments	16.1	19.9	18.7	5.4	5.7
Total other assets		122.3	127.8	107.7	35.8
Current		102.4	109.1	102.3	30.1
Non-current		19.9	18.7	5.4	5.7
Total other assets		122.3	127.8	107.7	35.8

Notes to the consolidated financial statements (continued)

16. Other assets (continued)

16.1. Interests in joint venture entities

Information relating to joint venture entities is set out below.

Name of entity	Principal Activity	Ownership interest		Consolidated Carrying amount		Company Carrying amount	
		2014	2013	2014	2013	2014	2013
		%	%	\$m	\$m	\$m	\$m
Joint venture entities							
NTI Limited ¹	Management services	50	50	5.4	5.7	5.4	5.7
RACT Insurance Pty Ltd ^{2,3}	Insurance	50	50	14.5	13.0	-	-
				19.9	18.7	5.4	5.7
Joint venture operations							
National Transport Insurance	Facilitation of insurance arrangements	50	50				

1. Registered office of NTI Ltd is Level 29, 400 George Street, Brisbane, QLD, 4000.

2. Investment held by GIO Insurance Investment Holdings (A) Pty Limited.

3. Registered office of RACT Insurance Pty Ltd is 'RACT' House Level 1, 179-191 Murray Street, Hobart, 7E3781744, TAS, 7000.

16.2. Summary financial information of joint venture entities

The following table summarised the financial information of the joint venture entities as included in their own financial statements.

	Consolidated		Company	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Revenues, expenses and results				
Revenues (100%)	136.2	154.5	53.0	52.0
Expenses (100%)	(126.7)	(145.4)	(53.0)	(52.0)
Profit (100%)	9.5	9.1	-	-
Share of joint venture entities' profit (after tax) from continuing operations	4.8	4.5	-	0.1
Share of joint venture entities' total comprehensive income	4.8	4.5	-	0.1
Assets and liabilities				
Current assets (100%)	106.9	97.4	19.0	15.0
Non-current assets (100%)	18.6	15.3	12.0	13.0
Current liabilities (100%)	83.4	70.1	17.0	9.0
Non-current liabilities (100%)	3.5	7.3	4.0	7.0
Net assets as reported by joint venture entities (100%)	38.6	35.3	11.0	11.0
Share of joint venture entities' net assets equity accounted	19.9	18.7	5.4	6.0
Joint venture entities expenditure commitments				
Lease commitments	11.6	12.0	9.0	7.9

There are no other material commitments or contingent liabilities of investments in equity-accounted investee.

16.3. Disposal of joint venture entities

There were no disposals in the current or prior financial years.

Notes to the consolidated financial statements (continued)

16. Other assets (continued)

16.4. Interest in joint venture operations

The Company is involved in a joint venture operation called National Transport Insurance Joint Venture, the principal activity of which is to facilitate a co-insurance arrangement of commercial motor vehicle business. The Company holds a 50% (2013: 50%) interest in the joint venture. Information relating to the joint venture, presented in accordance with the accounting policy described in note 34.1.5, is set out below.

	Consolidated		Company	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Share of operation's assets and liabilities				
Total assets	96.2	95.0	96.2	95.0
Total liabilities	(96.2)	(95.0)	(96.2)	(95.0)
Net assets	-	-	-	-
Share of operation's revenues, expenses and results				
Revenues	102.2	97.1	102.2	97.1
Expenses	(83.6)	(84.1)	(83.6)	(84.1)
Profit before income tax	18.6	13.0	18.6	13.0

17. Goodwill

	Consolidated		Company	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Goodwill				
Gross carrying amount	60.5	1,353.9	27.5	12.0
Less: accumulated impairment losses	(5.7)	(242.5)	(5.5)	(0.7)
Balance at the end of the financial year	54.8	1,111.4	22.0	11.3
Movement in goodwill				
Balance at the beginning of the financial year	1,111.4	1,111.4	11.3	11.3
Transfer	(1,056.6)	-	10.7	-
Balance at the end of the financial year	54.8	1,111.4	22.0	11.3

Goodwill was transferred to the immediate parent entity, Suncorp Insurance Holdings Limited, as part of the Group restructure described in note 28.5. Licence consolidation.

17.1 Impairment tests for cash-generating units containing goodwill

For the purpose of the annual impairment test, goodwill is allocated to significant cash generating units (CGU) which represent the Group's operating segments. The carrying amount of goodwill allocated to each CGU is then compared to its recoverable amount. For the year ended 30 June 2014, no impairment loss has been recognised (2013: nil).

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the Group's investment in each operating segment.

Consolidated		2014	2013
		\$m	\$m
The following CGUs have significant carrying amounts of goodwill:			
Personal		35.3	603.1
Commercial		19.5	508.3
		54.8	1,111.4

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

Notes to the consolidated financial statements (continued)

17. Goodwill (continued)

17.1 Impairment tests for cash-generating units containing goodwill (continued)

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

- Cash flows being projected from the financial forecasts prepared by the business units covering a five year period from 1 July 2014 (2013: five year period from 1 July 2013). Cash flows beyond the next five years (2013: five years) are extrapolated using a constant growth rate of 2.75% (2013: 3.0%), which does not exceed the long-term average growth rate for the industry.
- A post-tax discount rate of 10.2% (2013: 9.3%), representing each CGU's weighted average cost of capital. This is equivalent to 14.6% (2013: 12.8%) on a pre-tax basis.

At 30 June 2014, the recoverable amount of each CGU is considerably in excess of its carrying amount and, as a result, no impairment loss has been recognised in the consolidated statements comprehensive income. Based on information available and market conditions at 30 June 2014, a reasonably possible change to any of the key assumptions made in this assessment would not cause either CGUs recoverable amount to be less than its carrying amount.

18. Payables and other liabilities

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Payables				
Trade and other creditors	325.3	336.0	334.0	118.1
Amounts due to reinsurers	488.0	510.1	488.0	238.9
Unearned income	75.7	64.6	75.7	29.0
Amounts due to subsidiaries	-	-	46.7	141.1
Amounts due to parent entity	55.4	-	55.4	-
Amounts due to ultimate parent entity	285.4	201.9	285.3	27.9
Amounts due to related entities	284.7	229.3	285.1	58.0
	1,514.5	1,341.9	1,570.2	613.0
Financial liabilities				
<i>Unsecured</i>				
Bank overdrafts	-	3.5	-	27.9
Loans from subsidiaries	-	-	218.6	199.2
	-	3.5	218.6	227.1
Total payables and financial liabilities	1,514.5	1,345.4	1,788.8	840.1
Current	1,497.2	1,331.1	1,552.9	640.9
Non-current	17.3	14.3	235.9	199.2
Total payables and financial liabilities	1,514.5	1,345.4	1,788.8	840.1

Notes to the consolidated financial statements (continued)

19. Employee benefit obligations

19.1. Employee entitlements

	Note	Consolidated		Company	
		2014 \$m	2013 \$m	2014 \$m	2013 \$m
Employee entitlements		77.1	78.4	38.3	38.8
Defined benefit fund deficit	19.2	0.7	7.8	0.7	7.8
Total employee entitlements		77.8	86.2	39.0	46.6
Current		55.7	65.6	26.7	34.8
Non-current		22.1	20.6	12.3	11.8
Total employee entitlements		77.8	86.2	39.0	46.6

As explained in note 34.14.2., the amounts for long service leave included in employee entitlements above are measured at their present values. The following assumptions were adopted in measuring present values:

	Consolidated		Company	
	2014	2013	2014	2013
Weighted average rate of increases in annual employee benefits to settlement of the liabilities	3.8%	3.0%	3.8%	3.0%
Weighted average discount rate	3.0%	2.6%	3.0%	2.6%
Weighted average term to settlement of liabilities (years)	2.5	3.9	2.5	3.8

19.2. Defined benefits superannuation contributions

The Group sponsors two defined benefit superannuation funds for employees. All defined benefit funds are closed to new members with new employees now being given membership to defined contribution funds.

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

Consolidated	2014		2013	
	Net defined benefit asset \$m	Net defined benefit liability \$m	Net defined benefit asset \$m	Net defined benefit liability \$m
Defined benefit funds				
Australia				
AAMI Staff Superannuation Fund	0.4	-	0.2	-
Suncorp Defined Benefit Fund	-	0.7	-	7.8
Balance at the end of the financial year	0.4	0.7	0.2	7.8

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

- Members of the defined benefit funds in Australia receive lump sum benefits on retirement, death, disablement and withdrawal. The Suncorp Defined Benefit Fund has a number of members eligible for part pension benefits and it also currently pays lifetime pensions to a number of pensioners.
- The *Superannuation Industry (Supervision)* legislation in Australia governs the superannuation industry and provides the framework within which superannuation funds operate.
- Each defined benefit fund has a trustee who is responsible for the governance of the scheme. The trustees have a legal obligation to act solely in the best interests of fund beneficiaries.
- These defined benefit funds expose the Group to a number of risks including investment returns, salary growth, mortality and legislative changes.
- The Company's net position in relation to defined benefit funds includes the Suncorp Defined Benefit fund only. The disclosure in the above table also represents the Company's net position in this fund.

Notes to the consolidated financial statements (continued)

19. Employee benefit obligations (continued)

19.2. Defined benefits superannuation contributions (continued)

19.2.1. Reconciliation of movements

	2014	2013	2014	2013	2014	2013
	Defined benefit obligations		Fair value of plan assets		Net defined benefit liability	
	\$m	\$m	\$m	\$m	\$m	\$m
Consolidated						
Reconciliation of movements						
Balance at the beginning of the financial year	72.7	77.4	(65.1)	(60.7)	7.6	16.7
Included in profit or loss:						
Current service costs	3.2	3.2	-	-	3.2	3.2
Interest cost / (income)	2.0	2.1	(1.8)	(3.9)	0.2	(1.8)
	5.2	5.3	(1.8)	(3.9)	3.4	1.4
Included in other comprehensive income:						
Remeasurement gain arising from:						
Financial assumptions	(6.8)	(0.2)	-	-	(6.8)	(0.2)
Experience adjustment	(1.2)	(0.8)	-	-	(1.2)	(0.8)
Return on plan assets excluding interest income	-	-	(0.5)	(7.3)	(0.5)	(7.3)
Actuarial gain on defined benefit plans	(8.0)	(1.0)	(0.5)	(7.3)	(8.5)	(8.3)
Other movements:						
Contributions by employer	-	-	(2.2)	(2.2)	(2.2)	(2.2)
Benefits paid	(6.2)	(9.0)	6.2	9.0	-	-
	(6.2)	(9.0)	4.0	6.8	(2.2)	(2.2)
Balance at the end of the financial year	63.7	72.7	(63.4)	(65.1)	0.3	7.6
Company						
Reconciliation of movements						
Balance at the beginning of the financial year	70.4	75.0	(62.6)	(58.4)	7.8	16.6
Included in profit or loss:						
Current service costs	2.9	3.1	-	-	2.9	3.1
Interest cost / (income)	1.9	2.1	(1.7)	(3.8)	0.2	(1.7)
	4.8	5.2	(1.7)	(3.8)	3.1	1.4
Included in other comprehensive income:						
Remeasurement gain arising from:						
Financial assumptions	(6.3)	(0.2)	-	-	(6.3)	(0.2)
Experience adjustment	(1.2)	(0.8)	-	-	(1.2)	(0.8)
Return on plan assets excluding interest income	-	-	(0.5)	(7.0)	(0.5)	(7.0)
Actuarial gain on defined benefit plans	(7.5)	(1.0)	(0.5)	(7.0)	(8.0)	(8.0)
Other movements:						
Contributions by employer	-	-	(2.2)	(2.2)	(2.2)	(2.2)
Benefits paid	(5.9)	(8.8)	5.9	8.8	-	-
	(5.9)	(8.8)	3.7	6.6	(2.2)	(2.2)
Balance at the end of the financial year	61.8	70.4	(61.1)	(62.6)	0.7	7.8

19.2.2. Plan assets

Plan assets comprise:

	Consolidated		Company	
	2014	2013	2014	2014
	\$m	\$m	\$m	\$m
Plan assets with no quoted prices in active markets				
Investment funds (balanced)	63.4	65.1	61.1	62.6
	63.4	65.1	61.1	62.6

Notes to the consolidated financial statements (continued)

19. Employee benefit obligations (continued)

19.2. Defined benefits superannuation contributions (continued)

19.2.3. Actuarial assumptions

	Consolidated		Company	
	2014	2013	2014	2014
	%	%	%	%
Discount rate at 30 June	3.8	2.9	3.8	2.9
Future salary increases	3.0	3.5	3.0	3.5
Pension increases	2.5	2.5	2.5	2.5

19.2.4. Sensitivity analysis

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

	Consolidated		Company	
	2014	2014	2014	2014
	Increase	Decrease	Increase	Decrease
	\$m	\$m	\$m	\$m
Discount rate movement (100bps)	(4.8)	5.6	(4.6)	5.3
Future salary increases (100bps)	4.0	(3.6)	3.7	(3.3)
Future pension increases (100bps)	1.8	(1.6)	1.8	(1.6)

19.2.5. Funding

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. The funding requirements are based on an actuarial valuation performed for each defined benefit superannuation fund at least once every three years. The actuarial valuations for funding purposes prepared under applicable actuarial standards are different to the actuarial valuations prepared in accordance with accounting standards. Assumptions used in actuarial valuations for funding purposes may also be different to those described in note 19.2.3.

The Group intends to contribute \$3.6 million to the defined benefit funds in the financial year ending 30 June 2015 in line with the actuaries' latest recommendations.

19.3. Share-based payments

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

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

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

Shares required for these share plans are acquired by a special purpose trustee and/or custodial companies in ordinary trading on the Australian Securities Exchange.

Notes to the consolidated financial statements (continued)

19. Employee benefit obligations (continued)

19.3. Share-based payments (continued)

Features of the plans currently in operation are as follows:

Equity Plans	SGEIP (from October 2013) and the former EPSP (prior to October 2013)	SGL ESP (restricted shares)	SGL ESP (tax exempt) and the former EESP
Method of settlement	Equity-settled. Cash-settled in limited circumstances as elected by the Suncorp Group Board.	Equity-settled	Equity-settled
Eligible plan participant	Executives	Employees in senior roles below Executive level that satisfy the eligibility criteria.	Employees not eligible for LTI awards.
Basis of share grant / issue	Value of shares granted (offered) is determined by the Board based on the executive's remuneration and individual performance.	Value of restricted shares granted (offered) is determined by the Board based on the executive's remuneration and individual performance.	Market value of shares up to \$1,000 per employee per year may be granted by the Board based on the Suncorp Group's overall performance.
Vesting	Subject to satisfaction of performance criteria over the performance period.	Subject to remaining in employment with the Suncorp Group until the vesting date and not having given notice of intention to resign.	Fully vested, not subject to forfeiture.
Performance criteria	Refer below.	None	None
Minimum holding period	None after shares are vested.	None after shares are vested.	Earlier of three years or upon cessation of employment.
Plan maximum limit	Shares can only be granted or issued under the plans if the number to be granted or issued will not exceed 5% of Suncorp Group Limited's total shares on issue when aggregated with the number of shares granted or issued during the previous five years for all share plans operated by Suncorp Group Limited.		
Dividend entitlements	Vested shares carry full entitlement to dividend from the grant date (less any taxes paid by the Plan Trustee in respect of such dividends).		Full entitlement from when the shares are allocated to the participating employee and held in the Plan.
Voting rights	Voting rights are held by the Plan Trustee until shares are vested.		Participating employees have the right to vote from when the shares are allocated to them in the Plan.

Notes to the consolidated financial statements (continued)

19. Employee benefit obligations (continued)

19.3. Share-based payments (continued)

The performance criteria are as follows:

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

The amount included in the income statement in relation to the deferred ordinary shares allocated under SGEIP (2013: EPSP) and SGESP (2013: EESP) for the year ended 30 June 2014 for the Group was \$2.6 million (2013: \$3.0 million) and for the Company was \$1.0 million (2013: \$1.2 million).

Notes to the consolidated financial statements (continued)

20. Unearned premium liabilities

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Reconciliation of movements in unearned premium liabilities				
Unearned premium liability at the beginning of the financial year	4,034.9	3,826.8	873.6	981.0
Premiums written during the year	7,731.7	7,649.0	7,731.7	1,545.0
Premiums earned during the year	(7,683.2)	(7,440.9)	(7,683.2)	(1,652.4)
Transfer in of unearned premium liabilities	-	-	3,161.3	-
Unearned premium liability at the end of the financial year - current	4,083.4	4,034.9	4,083.4	873.6

21. Liability adequacy test

The Liability Adequacy Test (LAT) is used to assess the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against in-force insurance contracts. Future claims costs are calculated at the present value of the expected cash flows relating to future claims and includes a risk margin to reflect inherent uncertainty in the central estimate for each portfolio of contracts, being personal insurance and commercial insurance. The test is based on prospective information and consequently is heavily dependent on assumptions and judgements.

As at 30 June 2014, no deficiency arose from the test (2013: no deficiency).

The risk margin included in the Group's test as a percentage of the central estimate is 2.3% (2013: 2.4%). The risk margin was determined to give a probability of adequacy in the range of 57% - 64% (2013: 57% - 64%) and differs from the 90% (2013: 90%) probability of adequacy adopted in determining the outstanding claims liability.

The risk margin included in the Company's expected future cash flows for future claims as a percentage of the central estimate is 2.3% (2013: 2.3%). The risk margin was determined to give a probability of adequacy in the range of 57% - 64% (2013: 57% - 64%) and differs from the 90% (2013: 89%) probability of adequacy adopted in determining the outstanding claims liability.

The reason for these differences is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability recognised on the statements of financial position.

The process used to determine the risk margin is discussed in note 22.

22. Outstanding claims liabilities

22.1. Outstanding claims liabilities

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Gross central estimate - undiscounted	7,685.4	7,729.5	7,685.4	1,795.4
Risk margin	1,180.1	1,161.1	1,180.1	337.9
Claims handling expenses	292.8	286.8	292.8	62.3
	9,158.3	9,177.4	9,158.3	2,195.6
Discount to present value	(996.6)	(1,043.4)	(996.6)	(345.2)
Gross outstanding claims liabilities - discounted	8,161.7	8,134.0	8,161.7	1,850.4
Current	2,913.6	3,011.6	2,913.6	776.9
Non-current	5,248.1	5,122.4	5,248.1	1,073.5
Gross outstanding claims liabilities - discounted	8,161.7	8,134.0	8,161.7	1,850.4

Notes to the consolidated financial statements (continued)

22. Outstanding claims liabilities (continued)

22.2. Reconciliation of movement in discounted gross outstanding claim liabilities

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Net outstanding claims liabilities at the beginning of the financial year	6,637.7	6,748.1	1,354.9	1,383.5
Transfer in of outstanding claims liability	-	-	5,282.8	-
Prior periods				
Claims payments	(1,897.8)	(2,025.0)	(1,897.8)	(390.0)
Discount unwind	112.5	105.7	112.5	20.0
Margin release on prior periods	(237.6)	(257.0)	(237.6)	(56.0)
Incurred claims due to changes in assumptions and experience	(172.8)	(139.3)	(172.8)	(15.4)
Change in discount rate	74.7	(84.7)	74.7	(33.8)
Current period				
Incurred claims	4,965.8	4,917.5	4,965.8	869.9
Claims payments	(2,696.9)	(2,627.6)	(2,696.9)	(423.3)
Net outstanding claims liabilities at the end of the financial year	6,785.6	6,637.7	6,785.6	1,354.9
Discounted reinsurance recoveries on outstanding claims liabilities and other recoveries	1,376.1	1,496.3	1,376.1	495.5
Gross outstanding claims liabilities - discounted	8,161.7	8,134.0	8,161.7	1,850.4

22.3. Claims development tables

The following tables show the development of undiscounted outstanding claims relative to the ultimate expected claims for the ten most recent accident years.

Consolidated and Company	Accident Year											2014 Total \$m
	Prior \$m	2005 \$m	2006 \$m	2007 \$m	2008 \$m	2009 \$m	2010 \$m	2011 \$m	2012 \$m	2013 \$m	2014 \$m	
Estimate of ultimate claims cost:												
At end of accident year		1,149.1	1,186.1	1,223.8	1,267.9	1,272.0	1,312.8	1,306.6	1,286.9	1,374.4	1,389.5	12,769.1
One year later		1,042.6	1,099.6	1,162.0	1,128.3	1,259.9	1,216.2	1,201.8	1,276.0	1,344.1		10,730.5
Two years later		923.2	1,022.1	1,056.4	1,092.4	1,153.0	1,131.3	1,141.9	1,208.2			8,728.5
Three years later		884.0	948.1	1,026.4	1,048.9	1,133.0	1,103.0	1,123.0				7,266.4
Four years later		832.4	895.8	974.2	989.1	1,121.6	1,095.9					5,909.0
Five years later		804.4	862.2	947.5	975.7	1,085.6						4,675.4
Six years later		797.6	870.3	927.0	971.8							3,566.7
Seven years later		799.8	858.6	929.0								2,587.4
Eight years later		786.3	847.0									1,633.3
Nine years later		780.4										780.4
Current estimate of cumulative claims cost		780.4	847.0	929.0	971.8	1,085.6	1,095.9	1,123.0	1,208.2	1,344.1	1,389.5	
Cumulative payments		(718.6)	(778.6)	(820.8)	(804.7)	(885.2)	(747.4)	(627.2)	(480.1)	(259.4)	(79.3)	
Outstanding claims - undiscounted	709.6	61.8	68.4	108.2	167.1	200.4	348.5	495.8	728.1	1,084.7	1,310.2	5,282.8
Discount to present value	(231.7)	(6.4)	(7.2)	(11.3)	(19.1)	(20.2)	(31.0)	(42.4)	(59.4)	(92.8)	(125.1)	(646.6)
Outstanding claims - long-tail	477.9	55.4	61.2	96.9	148.0	180.2	317.5	453.4	668.7	991.9	1,185.1	4,636.2
Outstanding claims - short-tail												893.0
Claims handling expenses												257.7
Risk margin												998.7
Total net outstanding claims liabilities												6,785.6
Reinsurance and other recoveries on outstanding claims liabilities												1,376.1
Total gross outstanding claim liabilities												8,161.7

Notes to the consolidated financial statements (continued)

22. Outstanding claims liabilities (continued)

22.3. Claims development tables (continued)

The reconciliation of movement in outstanding claims liabilities and the claims development table have been presented on a net of reinsurance and other recoveries basis to give the most meaningful insight into the impact on profit or loss. Short-tail claims are disclosed separately as they are generally subject to less uncertainty since they are normally reported soon after the incident and are generally settled within twelve months following the reported incident.

22.4. Estimation of outstanding claims liabilities and assets arising from reinsurance contracts and other recoveries

The Group's estimation of its claims liabilities includes the expected future costs of claims notified to the Group as at balance date as well as claims incurred but not reported (**IBNR**) and claims incurred but not enough reported (**IBNER**).

Claims reported to the Group at balance date are estimated with due regard to the claim circumstance as reported by the insured, legal representative, assessor, loss adjuster and/or other third party and then combined, where appropriate, with historical evidence on the cost of settling similar claims. Estimates of the cost of claims reported are reviewed regularly and are updated as and when new information arises.

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

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

In calculating the estimated cost of unpaid claims, the Group uses a variety of estimation techniques, generally based upon statistical analysis of historical and industry experience that assumes that the development pattern of the current claims will be consistent with past experience and/or general industry benchmarks as appropriate. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. The impact of inflation on future expenditure is also taken into consideration. The ultimate net outstanding claims provision then has an additional risk margin applied to allow for the uncertainty within the estimation process.

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

22.5. Actuarial assumptions and methods

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

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

Claims inflation is incorporated into the resulting projected payments to allow for both expected levels of general economic inflation and superimposed inflation. Projected payments are discounted to allow for the time value of money.

Notes to the consolidated financial statements (continued)

22. Outstanding claims liabilities (continued)

22.5. Actuarial assumptions and methods (continued)

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

	2014	2013	2014	2013
Consolidated	Personal		Commercial	
Weighted average term to settlement (years)	0.5	0.5	4.5	4.7
Economic inflation rate	4.0%	4.0%	4.0%	4.0%
Superimposed inflation rate	0.3%	0.4%	2.5%	2.5%
Discount rate	2.6%	2.7%	3.4%	3.6%
Claims handling expense ratio	7.0%	6.2%	4.3%	4.4%
Risk margin	9.5%	8.8%	18.3%	18.3%
Company	Personal		Commercial	
Weighted average term to settlement (years)	0.5	0.4	4.5	7.1
Economic inflation rate	4.0%	4.0%	4.0%	4.0%
Superimposed inflation rate	0.3%	0.4%	2.5%	1.6%
Discount rate	2.6%	2.7%	3.4%	3.9%
Claims handling expense ratio	7.0%	5.7%	4.3%	4.9%
Risk margin	9.5%	8.4%	18.3%	25.8%

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

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

Discount rate – Projected payments are discounted at a risk-free rate to allow for the time value of money. Discount rates are derived from market yields on Commonwealth Government securities at the balance date.

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

Risk margin – A risk margin is added to allow for the uncertainty relating to the actuarial models and assumptions used, the quality of the underlying data used in the models, the general insurance environment and the impact of legislative reform. The overall risk margin is determined after analysing the relative uncertainty of the outstanding claims estimate for each class of business and the diversification between classes.

The assumptions regarding uncertainty for each class are applied to the net central estimates and the results are aggregated allowing for diversification in order to arrive at an overall position which is intended to have approximately 90% probability of sufficiency (2013: 90%).

Notes to the consolidated financial statements (continued)

22. Outstanding claims liabilities (continued)

22.6. Sensitivity analysis

The Group conducts sensitivity analyses to quantify the exposure to the risk of changes in the key underlying actuarial assumptions. A sensitivity analysis is conducted on each variable, whilst holding all other variables constant. The tables below describe how a change in each assumption will affect the profit before tax. All variables are weighted averages. There is no impact on equity reserves.

	Movement in variable	Consolidated		Company	
		Profit / (loss) before tax		Profit / (loss) before tax	
		2014	2013	2014	2013
	%	\$m	\$m	\$m	\$m
Weighted average term to settlement (years)	+0.5	(99.4)	(90.5)	(99.4)	(10.7)
	-0.5	98.0	89.3	98.0	10.6
Inflation rate	+1	(222.6)	(218.6)	(222.6)	(58.5)
	-1	205.3	201.4	205.3	52.2
Discount rate	+1	206.8	202.5	206.8	54.1
	-1	(228.5)	(223.9)	(228.5)	(62.1)
Claims handling expense ratio	+1	(55.3)	(54.2)	(55.3)	(9.7)
	-1	55.3	54.2	55.3	9.7
Risk margin	+1	(57.9)	(56.7)	(57.9)	(10.2)
	-1	57.9	56.7	57.9	10.2

23. Subordinated notes

	Due date	First call	Consolidated		Company	
			2014	2013	2014	2013
			\$m	\$m	\$m	\$m
Fixed rate notes						
(AUD)	September 2024	September 2014	131.5	135.0	131.5	135.0
(AUD)	September 2025	September 2015	121.5	121.7	121.5	121.7
(AUD)	October 2026	October 2016	104.8	106.0	104.8	106.0
(GBP)	June 2027	June 2017	243.7	232.2	-	-
Floating rate notes						
(AUD)	September 2024	September 2014	51.5	51.5	51.5	51.5
(AUD)	September 2025	September 2015	77.1	77.1	77.1	77.1
			730.1	723.5	486.4	491.3
Less transaction costs			(3.1)	(3.7)	(3.1)	(3.7)
Total subordinated notes			727.0	719.8	483.3	487.6
Current			183.0	-	183.0	-
Non-current			544.0	719.8	300.3	487.6
Total subordinated notes			727.0	719.8	483.3	487.6

The above subordinated notes were issued by the Company and Suncorp Insurance Funding 2007 Limited with maturities of 20 years, first callable at the option of the issuer after ten years. The notes are unsecured obligations of the issuing entity. Payments of principal and interest on the notes have priority over the issuing entity's dividend payments only. In the event of the winding-up of the issuing entity, the rights of the note holders will rank in preference only to the rights of its ordinary shareholders.

Notes to the consolidated financial statements (continued)

24. Share capital and reserves

	Company	
	2014 Shares	2013 Shares
Issued and fully paid ordinary shares		
Balance at the beginning of the financial year	317,077,465	300,577,465
Shares issued	-	16,500,000
Shares repurchased	(145,864,124)	-
Balance at the end of the financial year	171,213,341	317,077,465

24.1. Ordinary shares

The Company does not have authorised capital 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 winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

24.2. Share-based payments

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

24.3. 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.

25. Capital notes

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Balance at the beginning of the financial year	-	-	-	-
Notes issued	510.0	-	510.0	-
Balance at the end of the financial year	510.0	-	510.0	-

The capital notes are perpetual notes issued to the Group's parent entity, Suncorp Insurance Holdings Limited, on 11 February 2014 (\$110.0m) and 27 June 2014 (\$400.0m). The total balance of capital notes on issue as at 30 June 2014 was \$510.0m (2013: nil).

Notes to the consolidated financial statements (continued)

26. Capital management and requirements

26.1. Regulatory capital and regulatory capital requirements

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

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

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

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

- insurance risk charge to reflect the risks inherent in claims and premium liabilities
- insurance concentration risk charge to ensure capital is set aside for the risk of loss resulting from a single large event or a series of smaller events
- operational risk charge to ensure capital is set aside for the risk of loss resulting from inadequate processes or failed internal control, people and systems
- asset risk charge to better reflect the risk of adverse movements in the value of on-balance sheet and off-balance sheet exposures by including a variety of asset stress scenarios as well as some default charges
- an asset concentration risk charge to reflect an overconcentration to counterparties, if any; offset by
- an aggregation benefit, which makes an explicit allowance for diversification between asset risk charges and the sum of insurance risk and insurance concentration risk charges

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

For capital adequacy purposes, a general insurer is required to hold common equity tier 1 capital in excess of 60% of PCA Tier 1 capital in excess of 80% of PCA and total capital in excess of PCR to ensure solvency. For this purpose, a general insurer's capital base is expected to be adequate for its size, business mix, complexity and the risk profile of its business. The capital base is calculated as the sum of its common equity Tier 1, Additional Tier 1 and Tier 2 capital after specified deductions and adjustments.

Common Equity Tier 1 capital represents the net assets of the general insurer, less deductions such as goodwill and other intangible assets. It also includes any provisions (net of taxation impact) for outstanding claims and premium liabilities in excess of the amount required to provide a level of sufficiency at 75%. The Company applies a risk margin to the central estimate of net outstanding claims intended to achieve a 90% (2013: 89%) probability of sufficiency.

Additional Tier 1 capital represents eligible hybrid equity instruments, such as the capital notes issued by the Company.

Tier 2 capital includes certain types of debt capital instruments, such as qualifying subordinated notes. Existing subordinated notes are subject to an amortisation charge of 10% per annum until date of first call, at which time the instrument ceases to count towards eligible capital.

The Company and each of its licensed subsidiaries satisfied all regulatory capital requirements during both the current and the prior financial year.

Notes to the consolidated financial statements (continued)

26. Capital adequacy and regulatory capital requirements (continued)

26.1. Regulatory capital and regulatory capital requirements (continued)

The Company is not the parent entity for the consolidated general insurance group and as a result, does not prepare consolidated capital information for the Group.

26.2. Capital management

The capital management strategy of the Suncorp Group is to optimise shareholder value by managing the level, mix and use of capital resources within the constraints imposed by APRA as a licensed general insurance company.

The main objectives are to support the Suncorp Group's credit rating, ensure there are sufficient capital resources to maintain the business and operational requirements, retain sufficient capital to exceed externally imposed capital requirements and ensure the Suncorp Group's ability to continue as a going concern.

26.3. Prescribed capital

	Company	
	2014 \$m	2013 \$m
Tier 1 Capital		
Issued capital	949.4	2,408.1
Reserves	(2.8)	(2.8)
Retained profits at end of reporting period	1,392.4	401.5
Technical provision in excess of liability valuation (net of tax)	648.7	106.2
	2,987.7	2,913.0
Less:		
Goodwill	54.8	1,111.5
Other intangible assets	3.1	-
Deferred tax asset (net of deferred tax liabilities)	-	3.7
Capital required by subsidiaries	5.0	1,152.5
Other deductions	-	0.5
Total deductions from Tier 1 capital	62.9	2,268.2
Total Tier 1 Capital	2,924.8	644.8
Additional Tier 1 Capital	510.0	-
Total Tier 2 Capital	571.8	643.3
APRA capital base	4,006.6	1,288.1
Prescribed capital amount		
Insurance risk charge	1,274.6	237.2
Insurance concentration risk charge	250.0	250.0
Asset risk charge	609.2	233.3
Operational risk charge	295.3	55.0
Aggregation benefit	(382.5)	(139.7)
Prescribed capital amount	2,046.6	635.8
Capital coverage ratio (times)	1.96	2.03

Notes to the consolidated financial statements (continued)

27. Notes to the statements of cash flows

27.1 Reconciliation of cash flows from operating activities

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Profit after income tax	918.6	812.0	1,641.6	786.8
Movement in financial assets at fair value through profit or loss	(95.8)	41.5	(91.2)	(44.6)
Share of net profit from joint venture entities	(4.8)	(4.5)	-	(0.1)
Dividends received from subsidiaries	-	-	(720.0)	-
Impairment of investments and property	-	30.6	-	-
Net movement in defined benefit funds	(7.3)	(9.1)	(7.1)	(8.8)
Amortisation of share-based payments	-	0.1	-	0.1
Change in assets and liabilities				
Change in receivables	(215.4)	(3.4)	(191.1)	185.4
Change in reinsurance and other recoveries receivable	120.2	23.8	120.2	(34.6)
Change in deferred reinsurance premiums	19.6	(36.5)	19.6	(33.6)
Change in deferred acquisition costs	(18.0)	(58.1)	(18.0)	(27.2)
Change in deferred other expenses	48.5	35.7	48.5	6.2
Change in other assets	20.5	22.0	20.5	16.4
Change in deferred tax assets	(8.5)	9.4	(8.5)	6.8
Change in payables	92.0	382.7	92.0	190.6
Change in outstanding claims liabilities	27.7	(134.2)	27.7	6.0
Change in unearned premium liabilities	48.5	208.1	48.5	(107.4)
Change in employee benefit obligations	(8.4)	(8.7)	(7.6)	(13.2)
Change in deferred tax liabilities	(15.6)	(33.0)	(16.4)	(1.4)
Net cash inflow from operating activities	921.8	1,278.4	958.7	927.4

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

Cash and cash equivalents at the end of the financial year in the statements of cash flows are represented by the following:

	Consolidated		Company	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Cash and cash equivalents	221.8	123.3	167.6	46.5
Bank overdrafts	-	(3.5)	-	(27.9)
Total cash and cash equivalents in the statements of cash flows	221.8	119.8	167.6	18.6

Notes to the consolidated financial statements (continued)

28. Parent entity and subsidiaries

28.1. List of subsidiaries

	Note	Country of incorporation	Class of share	2014 Equity Holding %	2013 Equity Holding %
Parent entity	a				
Suncorp Insurance Holdings Limited		Australia			
Subsidiaries					
AMY Corporation Pty Ltd		Australia	Ordinary	100	100
All States Auto Management Pty Ltd		Australia	Ordinary	100	100
Just Car Insurance Agency Pty Ltd		Australia	Ordinary	100	100
Just Home Insurance Agency Pty Ltd		Australia	Ordinary	100	100
Australian Alliance Insurance Company Limited		Australia	Ordinary	100	100
InsureMyRide Pty Limited		Australia	Ordinary	100	100
APUA Pty Limited		Australia	Ordinary	100	100
Australian Pensioners Insurance Agency Pty Limited	d	Australia	Ordinary	100	100
Australian Associated Motor Insurers Limited		Australia	Ordinary	100	100
ABBi Pty Ltd		Australia	Ordinary	100	100
Bingle.com Pty Limited		Australia	Ordinary	100	100
Skilled Drivers of Australia Limited	b	Australia	N/A	N/A	N/A
Aviation Office of Australia Pty Ltd		Australia	Ordinary	100	100
GIO Insurance Investment Holdings A Pty Ltd		Australia	Ordinary	100	100
GIO General Limited	d	Australia	Ordinary	100	100
GIO Australia Pty Limited	d	Australia	Ordinary	100	100
GIO Workers Compensation (NSW) Pty Limited	d	Australia	Ordinary	100	100
GIO Workers Compensation (VIC) Limited	d	Australia	Ordinary	100	100
National Marine Insurance Agency Pty Limited		Australia	Ordinary	100	100
Promequity Limited	c	Australia	Ordinary	100	100
Suncorp Insurance Funding 2007 Limited		Australia	Ordinary	100	100
Suncorp Metway Insurance Limited		Australia	Ordinary	100	100
Shannons Auctions Limited	d	Australia	Ordinary	100	100
Shannons Pty Limited	d	Australia	Ordinary	100	100
Terri Scheer Insurance Pty Ltd		Australia	Ordinary	100	100
Vero Surety Pty Limited		Australia	Ordinary	100	100

Notes

- Names indented in the table indicate a direct subsidiary of entity appearing above.
- Skilled Drivers of Australia Limited ABN 71 005 918 301 (incorporated in Australia) is a controlled entity of Australian Associated Motor Insurers Limited but is not consolidated as it is a company limited by guarantee and members are not entitled to dividends or capital distributions.
- The Company is also registered as an Overseas Company in New Zealand.
- These companies were indirect subsidiaries as at 30 June 2013 but became direct subsidiaries from 1 July 2013.

28.2. Acquisition of business

The Group did not acquire any entities in the current or prior financial year.

28.3. Disposal of business

The Group did not dispose of any entities in the current or prior financial year.

28.4. Nature of subsidiaries activities

The subsidiaries engage in activities that may carry risk. This risk may impact the consolidated assets and liabilities of the Group.

Notes to the consolidated financial statements (continued)

28. Parent entity and subsidiaries (continued)

28.5. Licence consolidation

The Group did not dispose of any entities in the current or prior financial year.

On 1 July 2013, as part of the General Insurance One Licence Consolidation (**GIOL**), the insurance assets and liabilities constituting the businesses of the following entities:

- Australian Alliance Insurance Company Ltd (**AAIC**);
- GIO General Ltd (**GIO**);
- Suncorp Metway Insurance Limited (**SMIL**); and
- Australian Associated Motor Insurance Limited (**AAMI**)

were transferred to the Company via the intercompany loan account. Further details are set out in the Directors' report under 'Significant changes in the state of affairs'.

The transfer of the insurance assets and liabilities of the businesses occurred while under the common control of the Company. Accordingly as described in note 34.2, the transfers have been accounted for as business combinations under common control. In the books of the Company, all insurance assets and liabilities transferred continue to reflect their carrying values in the Company's consolidated accounting records immediately prior to the transfer, using the Company's accounting policies prior to the business combinations occurring.

As part of the GIOL, the carrying value of the acquisition goodwill relating to AAIC, GIO, SMIL and AAMI has been transferred to the Company's parent entity, Suncorp Insurance Holdings Limited (**SIHL**). On the basis that the transferred businesses are now operating from the Company, the goodwill is recognised in SIHL's separate financial statements as part of its investment in the Company. Furthermore, the Company repurchased shares to reflect the reduced capital needs resulting from the transfer of goodwill. Further details of the movement in consolidated goodwill are set out in note 17.

The total insurance assets and liabilities acquired by the Company as a result of the transfer are as follows:

	AAIC	GIO	SMIL	AAMI	Total
	\$m	\$m	\$m	\$m	\$m
Total assets	718.8	3,919.7	3,622.5	3,615.4	11,876.4
Total liabilities	(638.2)	(3,345.1)	(3,136.4)	(3,112.1)	(10,231.8)
Net assets	80.6	574.6	486.1	503.3	1,644.6
Consideration given	80.6	574.6	486.1	503.3	1,644.6

Subsequent to the transfer of its insurance assets and liabilities, each of AAIC, GIO, SMIL and AAMI repurchased shares and/or paid a combined dividend to the Company to reflect the reduced capital level required in their new operational circumstances. The total dividend received by the Company was \$720.0 million, and the total repurchase of shares was \$1,056.6 million.

As a result of the repurchase of shares by the subsidiaries, the Company's carrying value of investment in subsidiaries decreased to \$83.2 million from \$2,268.5 million.

Notes to the consolidated financial statements (continued)

29. Financial instruments

29.1. Comparison of fair value to carrying amounts

The following financial assets and liabilities are recognised and measured at fair value and therefore their carrying value equates to their fair value:

- financial assets at fair value through profit or loss including trading securities
- available-for-sale financial assets
- derivatives

Significant assumptions and estimates used to determine the fair values:

Financial assets

As cash and cash equivalents and receivables are short-term in nature their carrying value approximates their net fair value. Investment securities are determined based on quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used. Valuation techniques employed include discounted cash flow analysis using expected future cashflows and a market-related discount rate. The carrying value of these investment securities equates to fair value.

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

Financial liabilities

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

Subordinated notes are carried at amortised cost. The fair value and amortised cost of such notes total \$708.3 million (2013: \$670.8 million) and \$730.1 million (2013: \$723.5 million) at 30 June 2014, respectively for the Group. The fair value and amortised cost of such notes total \$479.3 million (2013: \$471.1 million) and \$486.4 million (2013: \$491.3 million) at 30 June 2014, respectively for the Company.

For all other financial liabilities which are short-term in nature, the carrying value is measured at amortised cost and is considered to be a reasonable estimate of fair value.

Derivative financial instruments

The net fair value of derivative contracts was obtained from quoted market prices, discounted cash flow models, broker and dealer price quotations or option pricing models as appropriate.

Refer note 14 for specific discussion on derivative financial instruments.

29.2. Fair value hierarchy

Financial assets and liabilities that are recognised and measured at fair value are categorised by a hierarchy which identifies the most significant input used in the valuation methodology:

- **Level 1** – derived from quoted prices (unadjusted) in active markets for identical financial instruments
- **Level 2** – derived from other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly
- **Level 3** – fair value measurement is not based on observable market data.

Notes to the consolidated financial statements (continued)

29. Financial instruments (continued)

29.2. Fair value hierarchy (continued)

Fair values of the significant financial instruments at balance date, classified by fair value hierarchy level are as follows:

Consolidated 2014	Carrying	Fair value			Total
	value \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m	
Financial assets					
Investment securities	12,084.6	1,914.6	10,170.0	-	12,084.6
Derivative assets	22.9	1.0	21.9	-	22.9
	12,107.5	1,915.6	10,191.9	-	12,107.5
Financial liabilities					
Derivative liabilities	149.3	27.3	122.0	-	149.3
	149.3	27.3	122.0	-	149.3
2013					
Financial assets					
Investment securities	11,579.5	2,505.6	9,072.4	1.5	11,579.5
Derivative assets	39.4	-	39.4	-	39.4
	11,618.9	2,505.6	9,111.8	1.5	11,618.9
Financial liabilities					
Derivative liabilities	115.6	-	109.0	6.6	115.6
	115.6	-	109.0	6.6	115.6
Company					
2014					
Financial assets					
Investment securities	12,084.6	1,914.6	10,170.0	-	12,084.6
Derivative assets	22.9	1.0	21.9	-	22.9
	12,107.5	1,915.6	10,191.9	-	12,107.5
Financial liabilities					
Derivative liabilities	149.3	27.3	122.0	-	149.3
	149.3	27.3	122.0	-	149.3
2013					
Financial assets					
Investment securities	2,971.0	446.1	2,523.4	1.5	2,971.0
Derivative assets	22.4	-	22.4	-	22.4
	2,993.4	446.1	2,545.8	1.5	2,993.4
Financial liabilities					
Derivative liabilities	77.8	-	76.5	1.3	77.8
	77.8	-	76.5	1.3	77.8

There have been no significant transfers between Level 1 and Level 2 during the current or previous financial year in either Group or the Company.

Notes to the consolidated financial statements (continued)

29. Financial instruments (continued)

29.3. Fair value hierarchy – Level 3 movement reconciliation

The Group's and the Company's exposure to Level 3 financial instruments are restricted to an insignificant component of the portfolios to which they belong, such that any change in the assumptions used to value the instruments to a reasonably possible alternative do not have a material effect on the portfolio balance of the Group's and the Company's results.

The movements in Level 3 of the fair value hierarchy during the financial year are as follows:

	2014		2013	
	Investment securities \$m	Derivative liabilities \$m	Investment securities \$m	Derivative liabilities \$m
Consolidated				
Balance at the beginning of the financial year	1.5	6.6	13.6	-
General insurance investment revenue:				
Insurance funds	-	-	-	6.6
Shareholder funds	-	-	0.1	-
Change in fair value recognised in equity	-	5.6	-	-
Transfers out of level 3	(1.5)	(10.9)	(2.8)	-
Other movements	-	(1.3)	-	-
Sales	-	-	(9.4)	-
Balance at the end of the financial year	-	-	1.5	6.6
Company				
Balance at the beginning of the financial year	1.5	1.3	6.4	-
General insurance investment revenue:				
Insurance funds	-	-	-	1.3
Shareholder funds	-	-	0.1	-
Transfers out of level 3	(1.5)	(1.3)	(2.7)	-
Sales	-	-	(2.3)	-
Balance at the end of the financial year	-	-	1.5	1.3

Note

All gains/losses included in the profit or loss relate to assets and liabilities held at the end of the financial year.

29.4. Master netting or similar arrangements

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

Derivative assets and liabilities

- Offsetting has been applied to the Group derivatives (e.g. interest rate swaps and foreign currency swaps) in the consolidated statement 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 Group derivatives are subject to International Swaps and Derivatives Association (ISDA) Master Arrangement and other similar master netting arrangements. These arrangements contractually binds the Group and other counterparties to apply close out netting across all financial transactions only if either party defaults or other pre-arranged termination events occur. As such, they do not meet the criteria for offsetting in the consolidated statement of financial position.
- The cash collateral pledged or received is subject to ISDA Credit Support Annex and other standard industry terms.

Amounts due to reinsurers

- Some reinsurance treaties of the Group require netting arrangements whereby the receivable from and the payable to reinsurers are settled on a net basis. As such, the Group has applied offsetting in the consolidated statement of financial position.
- The collateral received are subject to terms and conditions of the respective reinsurance treaties and provide regulatory capital relief on our credit exposures to reinsurers.

Notes to the consolidated financial statements (continued)

29. Financial instruments (continued)

29.4. Master netting or similar arrangements (continued)

The following financial assets and financial liabilities are subject to offsetting, enforceable master netting arrangement and similar agreements.

	Gross amounts \$m	Offsetting applied \$m	As presented in the SOFP \$m	Amounts not offset in the SOFP ¹		Net exposure \$m
				Financial instruments \$m	Cash collateral \$m	
Consolidated						
2014						
Financial assets						
Derivatives	1,649.7	(1,638.2)	11.5	(7.4)	-	4.1
Amounts due from reinsurers ²	65.4	(41.1)	24.3	-	(1.4)	22.9
Total	1,715.1	(1,679.3)	35.8	(7.4)	(1.4)	27.0
Financial liabilities						
Derivatives	1,738.7	(1,638.2)	100.5	(7.4)	(87.2)	5.9
Amounts due to reinsurers ³	85.5	(41.1)	44.4	-	-	44.4
Total	1,824.2	(1,679.3)	144.9	(7.4)	(87.2)	50.3
2013						
Financial assets						
Derivatives	2,436.5	(2,397.8)	38.7	(14.3)	(18.2)	6.2
Amounts due from reinsurers ²	103.7	(90.0)	13.7	-	(0.6)	13.1
Total	2,540.2	(2,487.8)	52.4	(14.3)	(18.8)	19.3
Financial liabilities						
Derivatives	2,450.3	(2,397.8)	52.5	(14.3)	(5.6)	32.6
Amounts due to reinsurers ³	112.0	(90.0)	22.0	-	-	22.0
Total	2,562.3	(2,487.8)	74.5	(14.3)	(5.6)	54.6
Company						
2014						
Financial assets						
Derivatives	1,649.7	(1,638.2)	11.5	(7.4)	-	4.1
Amounts due from reinsurers ²	65.4	(41.1)	24.3	-	(1.4)	22.9
Total	1,715.1	(1,679.3)	35.8	(7.4)	(1.4)	27.0
Financial liabilities						
Derivatives	1,738.7	(1,638.2)	100.5	(7.4)	(87.2)	5.9
Amounts due to reinsurers ³	85.5	(41.1)	44.4	-	-	44.4
Total	1,824.2	(1,679.3)	144.9	(7.4)	(87.2)	50.3
2013						
Financial assets						
Derivatives	665.2	(655.9)	9.3	(3.3)	(2.9)	3.1
Amounts due from reinsurers ²	53.1	(42.8)	10.3	-	(0.6)	9.7
Total	718.3	(698.7)	19.6	(3.3)	(3.5)	12.8
Financial liabilities						
Derivatives	670.6	(655.9)	14.7	(3.3)	(1.4)	10.0
Amounts due to reinsurers ³	64.4	(42.8)	21.6	-	-	21.6
Total	735.0	(698.7)	36.3	(3.3)	(1.4)	31.6

1. Statement of financial position (**SOFP**) denotes consolidated statement of financial position. The balances may not equate to the corresponding line item presented on the face of the consolidated statement of financial position or in the supporting notes. The difference relates to financial assets and financial liabilities that are not subject to master netting arrangements and is therefore not in scope of offsetting disclosures.
2. Included as part of note 11. Receivables.
3. Included as part of 'amounts due to reinsurers' in note 18. Payables and other liabilities.

Notes to the consolidated financial statements (continued)

30. Key management personnel disclosures

Key management personnel (KMP) compensation is provided by the ultimate parent entity, Suncorp Group Limited (non-executive directors) and a related party of the ultimate parent company (executive directors and executives).

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

Total compensation for KMP of the Company are as follows:

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Short-term employee benefits	20,389	19,537	20,389	19,537
Long-term employee benefits	5,248	5,624	5,248	5,624
Post-employment benefits	416	365	416	365
Share-based payments	4,719	4,767	4,719	4,767
Termination benefits	767	-	767	-
	31,539	30,293	31,539	30,293

The ultimate parent entity has determined the compensation of KMPs in accordance with their roles within the 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 be misleading. There is no link between KMP compensation and the performance of the Company. Therefore, as there is no reasonable basis for allocating a KMP compensation amount to the Company, the entire compensation of the KMPs has been disclosed above.

30.1. Other key management personnel transactions with the Company or its subsidiaries or jointly controlled entities

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

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

31. Other related party disclosures

31.1. Identity of related parties

The ultimate parent entity in the wholly owned group is Suncorp Group Limited. The immediate parent entity is Suncorp Insurance Holdings Limited. The Company has a related party relationship with its subsidiaries (refer note 28) and joint venture operations (refer note 16.1), its key management personnel and other entities within the wholly owned group (which consists of Suncorp Group Limited and its wholly owned subsidiaries).

31.2. Related party transactions with subsidiaries

Transactions between the Company and its subsidiaries consisted of dividends received and paid, insurance premiums received and paid, insurance claims paid and received, fees received and paid for administrative, property and portfolio management services, and interest received and paid. All these transactions were on commercial terms, except that some advances may be interest free.

Notes to the consolidated financial statements (continued)

31. Other related party disclosures (continued)

31.2. Related party transactions with subsidiaries (continued)

	Company	
	2014	2013
	\$000	\$000
Current amounts receivable (unsecured)		
Receivables	8,591	34,748
Current amounts payable (unsecured)		
Payables	46,669	177,738
Financial liabilities	218,567	199,215
Outstanding claims liabilities	-	83,190

	Company	
	2014	2013
	\$000	\$000
Revenue received		
Inwards reinsurance premium received	-	190,389
Dividend revenue	722,900	625,900
Expenses paid		
Claims expense	-	151,287
Interest expense	13,456	11,602

31.3 Related party transactions with the parent entity

Transactions between the Company and its parent entity consisted of dividends paid. Any loans advanced to or from the parent entity are on commercial terms, except that some advances may be interest free.

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Current amounts receivable (unsecured)				
Current amounts receivable	-	173	-	173
Current amounts payable (unsecured)				
Current amounts payable	55,388	-	55,388	-

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Dividends paid	656,100	818,000	656,100	818,000

31.4 Related party transactions with the ultimate parent entity

Transactions between the Company and the ultimate parent entity consisted of advances made and repaid. Any loans advanced to or from the ultimate parent are on commercial terms, except some advances may be interest free.

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Current amounts receivable (unsecured)				
Current amounts receivable	526	-	-	-
Current amounts payable (secured)				
Current amounts payable	285,381	201,937	285,335	27,934

Notes to the consolidated financial statements (continued)

31. Other related party disclosures (continued)

31.5 Related party transactions with other related entities

Transactions between the Group and other related entities consist of interest received on deposits and investment securities held, finance costs, fees received and paid for information technology services, investment management and custodian services, overseas management services, finance facilities and reinsurance arrangements. All these transactions were on commercial terms, except that some advances may be interest free. The Group's primary banking facilities are held with Suncorp-Metway Limited, a subsidiary of the ultimate parent entity.

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Current amounts receivable (unsecured)				
Current amounts receivable	66,313	69,174	65,154	60,305
Current amounts payable (unsecured)				
Current amounts payable	284,729	229,304	285,051	57,970
Derivative liabilities net	38,200	47,221	38,200	47,221
Non current amounts receivable (unsecured)				
Non current amounts receivable	130,000	130,000	130,000	22,340
Reserves				
Cashflow hedges - amounts recognised in equity	(2,400)	(3,300)	(2,400)	(3,300)

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Revenue received				
Inwards reinsurance premium received	-	12,757	-	12,757
Interest revenue	-	513	-	213
Trust distributions	-	69,696	-	25,239
Dividend revenue	3,500	3,200	250	400
Information technology service fees	628	624	-	-
Expenses paid				
Reinsurance premium expense	560	1,521	560	1,521
Claims expense	400	14,090	400	14,090
Interest expense	-	4,190	13,456	11,602
Investment management fees	5,840	6,904	5,840	1,805
Other management fees	1,215,211	1,142,728	1,214,848	228,186

Notes to the consolidated financial statements (continued)

32. Commitments

32.1. Operating lease expenditure commitments

	Consolidated		Company	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Aggregate future operating lease rentals contracted for but not provided in the financial statements are payable as follows:				
Within one year	9.4	18.4	1.9	4.9
Later than one year but no later than five years	9.4	20.8	0.5	2.5
	18.8	39.2	2.4	7.4
Representing:				
Non-cancellable operating leases	18.8	39.2	2.4	7.4
	18.8	39.2	2.4	7.4

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

32.2. Capital expenditure commitments

There was no capital expenditure contracted for but not provided for in the consolidated financial statements (2013: \$nil).

33. Contingent assets and liabilities

33.1. 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 that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, is likely to have a material effect on its operations or financial position. The directors are of the opinion that receivables are not required in respect of these matters, as it is not virtually certain that future economic benefits will eventuate or the amount is not capable of reliable measurement.

33.2. Contingent liabilities

There are outstanding court proceedings, potential fines, claims and possible claims against the Group, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Group does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are 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.

The parent entity has provided a written undertaking to a branch of a wholly-owned subsidiary to provide financial support, where necessary, to enable the entity to meet its financial obligations as and when they fall due, until such time as the financial statements for the year ended 30 June 2014 are approved by the board of directors.

Notes to the consolidated financial statements (continued)

34. 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.

34.1. Basis of consolidation

The Group's consolidated financial statements are 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.

34.1.1. Subsidiaries

Subsidiaries are entities controlled by the Group which includes companies, managed investment 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 when control ceases.

34.1.2. Insurance managed funds

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

34.1.3. Non-controlling interests and managed funds units on issue

Non-controlling interests and managed funds units on issue are recognised when the Group does not hold 100% of the shares or units in a subsidiary. They represent the external equity or liability interests in non-wholly owned subsidiaries of the Group. Where shares or units issued are classified as equity in the subsidiary, non-controlling interests are recognised as equity. Where such shares or units issued are classified as liability in the subsidiary (e.g. investment trusts), managed funds units on issue are recognised as liability.

34.1.4. Joint arrangements and associates

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement rather than rights to its assets and obligations for its liabilities.

These investments are accounted for using the equity method. Interests are initially recognised at cost and adjusted to recognise the Group's share of the profit or loss after the date of acquisition.

Investments in equity-accounted entities are assessed for impairment each reporting date and are carried at the lower of the equity-accounted amount and recoverable amount.

34.1.5. Joint operations

Joint operations are those operations in which the Suncorp Group has joint control over the arrangement. They are brought to account by recognising the assets the Suncorp Group controls, the liabilities that it incurs, the expenses it incurs and its share of income that is earned by the joint operations.

34.2. Business combinations

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

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

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

Notes to the consolidated financial statements (continued)

34. Significant accounting policies (continued)

34.2. Business combinations (continued)

Business combination of entities under common control

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

34.3. Foreign currency transactions

Transactions denominated in foreign currencies are translated into the functional currency using the spot exchange rates ruling at the date of the transaction. Foreign currency monetary assets and liabilities at reporting date are translated into the functional currency using the spot exchange rates current on that date. The resulting differences on monetary items are recognised in the profit or loss as exchange gains/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 rate 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 34.7. Derivative financial instruments and note 34.8. Hedge accounting.

34.4. Revenue and expense recognition

34.4.1. Premium revenue

Premium revenue comprises amounts charged to policyowners and includes applicable levies and charges such as fire service levies but excludes stamp duty collected on behalf of state governments and is recognised net of goods and services tax.

Premiums are recognised as revenue in accordance with the pattern of the underlying risk exposure from the date of attachment over the period of the insurance policy, which is usually one year.

Premiums on unclosed business are brought to account by reference to the prior year's experience and information that has become available between the reporting date and the date of completing the consolidated financial statements. For reinsurance business, premium is recognised from the date of attachment of the risk over the period of indemnity.

34.4.2. Reinsurance and other recoveries revenue

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

34.4.3. Reinsurance commission revenue and expenses

Reinsurance commission revenue and expenses are recognised in profit or loss as they accrue.

34.4.4. Investment revenue

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

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

Fair value gains and losses from assets are recognised in profit or loss as they occur.

34.4.5. Insurance managed funds income

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

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

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

Notes to the consolidated financial statements (continued)

34. Significant accounting policies (continued)

34.4. Revenue and expense recognition (continued)

34.4.6. Fees and other income

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

34.4.7. Underwriting expenses

Underwriting expenses include acquisition costs and other underwriting expenses.

Costs associated with obtaining and recording insurance business are referred to as acquisition costs and include commissions and other selling and underwriting costs incurred in obtaining general insurance premiums. These costs are recognised in profit or loss.

Other underwriting expenses are all expenses other than acquisition costs or claims expenses that are incurred in the course of ordinary activities. Other underwriting expenses are expensed as incurred.

34.4.8. Claims expense

Claims expense represents payments for claims and the movement in outstanding claims liabilities. Claims represent the benefits paid or payable to the policyowner on the occurrence of an event giving rise to a loss or accident according to the terms of the policy. Insurance claims are recognised in profit or loss when the liability to the policyowner under the policy contract has been established or upon notification of the insured event, depending on the type of claim.

34.4.9. Levies and charges

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

34.4.10. Outwards reinsurance premium expense

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

34.4.11. Finance costs

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

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

34.5. Income tax

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

Current tax consists of the expected tax payable on the taxable income for the year, after any adjustments in respect of previous years, using tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. The tax effect of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Notes to the consolidated financial statements (continued)

34. Significant accounting policies (continued)

34.5. Income tax (continued)

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes or interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities may impact tax expense in the period that such a determination is made.

For presentation purposes, deferred tax assets and deferred tax liabilities have been offset if there is a legally enforceable right to offset current tax assets and liabilities and where they relate to income taxes levied by the same taxation authority on the same taxable entity or entities within the Group.

34.5.1. Tax consolidation

Suncorp Group Limited is the head entity in the tax-consolidated group comprising all its Australian wholly-owned subsidiaries. Consequently, all members of the tax-consolidated group are taxed as a single entity.

The Company and each of its own wholly owned subsidiaries recognises the current and deferred tax amounts applicable to the transactions undertaken by it, reasonably adjusted for certain intra group transactions, as if it continued to be a separate tax payer. The 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 head entity in conjunction with members of the tax-consolidated group has entered into a tax sharing agreement and a tax funding agreement. The tax funding agreement requires wholly owned subsidiaries to make contributions to the head entity for current tax liabilities arising from external transactions. The contributions are calculated as if the subsidiary was a separate tax payer, reasonably adjusted for certain intergroup transactions. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities, at call.

Members of the tax-consolidated group have also, via the tax sharing agreement, provided for the determination of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial reports in respect of this component of the agreement as this outcome is considered remote.

34.5.2. Taxation of financial arrangements (TOFA)

Compliance with the TOFA legislation is mandatory for the tax consolidated group for the current year. The Group applies the default method of accruals or realisation and has not made any elections regarding transitional financial arrangements or other elective timing methods.

34.5.3. Goods and services tax

Revenues, expenses and assets are recognised net of Goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or the amount of expense.

Receivables, payables and outstanding claims liabilities are stated with the amount of GST included.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Notes to the consolidated financial statements (continued)

34. Significant accounting policies (continued)

34.6. Non-derivative financial assets

34.6.1. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are classified as either held for trading or are so designated upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. They are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Transaction costs are recognised in the profit or loss as incurred. The assets are measured at fair value each reporting date based on the quoted bid price where available. Where quoted prices are not available, alternative valuation techniques are used. Movements in the fair value are taken immediately to the profit or loss. The Group's financial assets at fair value through profit or loss include investment securities.

34.6.2 Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on deposit and money at short call. They are measured at face value or the gross value of the outstanding balance which is considered a reasonable approximation of fair value. Bank overdrafts are shown within financial liabilities unless there is a right of offset.

34.6.3. Loans and receivables

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

34.6.4. General insurance activities

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

34.6.4.1. Financial assets backing general insurance liabilities

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

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

34.6.4.2. Financial assets not backing general insurance liabilities

Financial assets that do not back general insurance liabilities include investment securities and receivables. Investment securities have been designated at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis. Receivables are measured at amortised cost less accumulated impairment losses.

Receivables related to investment securities are measured at each reporting date at amortised cost using the effective interest rate method less impairment.

34.6.5. Derecognition

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.

Notes to the consolidated financial statements (continued)

34. Significant accounting policies (continued)

34.7. Derivative financial instruments

The Group holds derivative financial instruments to manage the Group's assets and liabilities or as part of the Group's investment activities. Derivatives include exchange rate related contracts, interest rate related contracts and equity contracts.

All derivatives are initially recognised at fair value on trade date and transaction costs are recognised in profit or loss as incurred. Fair values are determined from quoted market prices; where quoted market prices are not available, discounted cash flow models, broker and dealer price quotations or option pricing models as appropriate. Derivatives are classified and accounted for as financial assets at fair value through profit or loss unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting (note 34.8. Hedge accounting).

34.8. 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. On entering into a hedging relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness. On an ongoing basis, hedges are assessed for whether they are highly effective in achieving offsetting changes in fair values or cash flows of hedged items. A hedge is considered highly effective when the actual results of the hedge are within a range of 80-125 percent.

34.8.1. Cash flow hedges

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

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

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

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

34.8.2. 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 or loss.

Where an effective hedge relationship is established, fair value gains or losses on the hedging instrument are recognised in the profit or loss as are any changes in the fair value of the hedged item that are attributable to the hedged risk. The hedged item is recognised at fair value, for the risk being hedged, in the statement of financial position.

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

Notes to the consolidated financial statements (continued)

34. Significant accounting policies (continued)

34.9. Deferred insurance assets

34.9.1. Deferred acquisition costs

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

Deferred acquisition costs (DAC) are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

DAC are recognised as assets to the extent that the related unearned premiums exceed the sum of the DAC and the present value of both future expected claims and settlement costs, including an appropriate risk margin. Where there is a shortfall, the DAC is written down and if insufficient, an unexpired risk liability is recognised. Refer to note 34.17.

34.9.2. Deferred reinsurance premiums

Reinsurance premiums are deferred and recognised as an asset where there are future economic benefits to be received from reinsurance premiums. The amortisation of deferred reinsurance premium is in accordance with the pattern of reinsurance service received.

34.10. Goodwill and intangible assets

Goodwill is recognised at cost from business combinations as described in note 34.2. and is subsequently measured at cost less accumulated impairment loss. Goodwill on equity accounted investees is included in the carrying value of the investment.

Intangible assets other than goodwill are recognised at cost less any accumulated amortisation and any accumulated impairment losses. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at the acquisition date.

Intangible assets deemed to have an indefinite useful life are not amortised but are tested for impairment at least annually.

34.11. Impairment

34.11.1. Financial assets

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

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

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

34.11.2. Non-financial assets

Non-financial assets are assessed for indicators of impairment at each reporting date. Indicators include both internal and external factors. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (CGUs) – this may be an individual asset or a group of assets. For the purpose of assessing impairment of goodwill, goodwill is allocated to CGUs representing the Group's investment in each of its business lines, which are its operating segments.

Notes to the consolidated financial statements (continued)

34. Significant accounting policies (continued)

34.11.2. Non-financial assets (continued)

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in profit or loss. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Impairment losses, if any, recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss recognised for goodwill is not reversed. An impairment loss for an asset other than goodwill is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

34.12. Non-derivative financial liabilities

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

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

34.13. 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, except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased property.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

34.14. Employee benefits

34.14.1. Short-term employee benefits

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

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

Notes to the consolidated financial statements (continued)

34. Significant accounting policies (continued)

34.14. Employee benefits (continued)

34.14.2. Long service leave and annual leave

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

34.14.3. Superannuation

The Group contributes to both defined contribution and defined benefit superannuation schemes. Contributions made to defined contribution plans are charged to the profit or loss as the obligation to pay is incurred. The defined contribution plans receive fixed contributions and the Group's legal or constructive obligation is limited to these contributions.

A defined benefit liability is recognised in the statement of financial position as a net total of the present value of the defined benefit obligation at the balance date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

If the defined benefit liability resulted in negative balance, a defined benefit asset is recognised as the lower of the negative defined benefit liability and the total of cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recognised directly to equity. Past service costs are recognised immediately in profit or loss.

34.14.4. Termination benefits

Termination benefits are recognised as an expense when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. Termination benefits for voluntary redundancies are recognised as an expense if the Group can no longer withdraw the offer as an employee has accepted the offer or when a restriction on the Group's ability to withdraw the offer takes effect.

34.15. Share-based payments

The Suncorp Group operates several share-based payment transactions with its non-executive directors and employees which may be equity settled or equity settled with a cash alternative (ultimate parent entity's choice).

For equity settled transactions, the fair value is recognised as an expense on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value is calculated as the fair value of each share granted multiplied by the expected number of shares to eventually vest. The fair value of each share granted is measured on grant date and does not change throughout the vesting period unless the terms and conditions of the grant are modified. The fair value of the share-based payments is based on the market price of the shares, dividend entitlements, and market vesting conditions (e.g. performance criteria) upon which the shares were granted. Non-market vesting conditions (e.g. service conditions) are taken into account by adjusting the number of shares which will eventually vest and are not taken into account the determination of the grant date fair value. On a cumulative basis, no expense is recognised for shares granted that do not vest due to a non-market vesting condition not being satisfied.

Cash settled transactions are recognised as a liability at fair value. Until the liability is settled, the fair value of the liability is remeasured at each reporting date, and at the date of settlement, with the changes in fair value recognised in profit or loss for the period.

Equity settled transactions with a cash alternative (ultimate parent entity's choice) are accounted for as a cash settled share-based payment transaction to the extent that the Suncorp Group has a present obligation to settle in cash. Otherwise, the transaction is accounted for as an equity-settled arrangement.

34.16. Unearned premium liabilities

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

Notes to the consolidated financial statements (continued)

34. Significant accounting policies (continued)

34.17. Liability adequacy test

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

The LAT test is based on prospective information and so is heavily dependent on assumptions and judgments which are explained in note 21.

34.18. Outstanding claims liabilities

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date and includes an additional risk margin to allow for the inherent uncertainty in the central estimate. The details of risk margin applied and the process of determining the risk margin is set out in note 22.

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

34.19. Share capital

Ordinary shares are classified as equity.

34.19.1. Repurchase of share capital

When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

34.19.2. Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at reporting date.

Where a dividend is declared post-reporting date but prior to the date of the financial reports, disclosure of the declaration is made in the financial reports but no provision is made.

34.19.3. Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. Transaction costs in excess of the proceeds of the equity instruments issued, or where no proceeds are raised, are recognised as an expense.

34.20. Capital notes

Capital notes are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost.

The notes are perpetual, with no specified maturity date, and pay non-cumulative dividends. Hence these exhibit the characteristics of equity.

34.21. Contingent liabilities and contingent assets

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

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

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

Notes to the consolidated financial statements (continued)

34. Significant accounting policies (continued)

34.22. New accounting standards and interpretations not yet adopted

The following standard, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Group in this financial report:

- AASB 9 *Financial Instruments* was issued and introduced changes in the classification and measurement of financial assets and financial liabilities. This standard becomes mandatory for the Group's 30 June 2018 financial statements. The potential effects on adoption of the amendments are yet to be determined.
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* amendment to AASB 132 clarifies when an entity has a legally enforceable right to set-off financial assets and financial liabilities permitting entities to present balances net on the balance sheet. This amendment becomes mandatory for the Group's 30 June 2015 financial statements. The potential effects on adoption of the amendments are yet to be determined.

35. Risk management

35.1. Risk management objectives and structure

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

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

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

The Three Lines of Defence model of accountability involves:

Line of Defence	Responsibility of	Accountable for
First Manage risk and comply with Suncorp Group frameworks, policies and risk appetite	All business areas (and staff)	<ul style="list-style-type: none"> • Identifying and managing the risks inherent in their operations • Ensuring compliance with all legal and regulatory requirements and Suncorp Group policies • Promptly escalating any significant actual and emerging risks for management attention.
Second Independent functions own and monitor the application of risk frameworks, and measure and report on risk performance and compliance	All risk functions (Suncorp Group and business units)	<ul style="list-style-type: none"> • Design, implement and manage the ongoing maintenance of Suncorp Group risk frameworks and related policies • Advise and partner with the business in design and execution of risk frameworks and practices; develop, apply and execute business units risk frameworks that are consistent with Suncorp Group for the respective business areas • Facilitate the reporting of the appropriateness and quality of risk management.
Third Independent assurance over internal controls and risk management practices	Internal and external auditors	<ul style="list-style-type: none"> • Decides the level and extent of independent testing required to verify the efficacy of internal controls • Validates the overall risk framework • Provides assurance that the risk management practices are functioning as intended.

Notes to the consolidated financial statements (continued)

35. Risk management (continued)

35.1. Risk management objectives and structure (continued)

The Board has delegated authorities and limits to the Group Chief Executive Officer (**Group CEO**) to manage the business. Management recommends to the Board, and the Board has approved, various frameworks, policies and limits relating to key categories of risk faced by the Suncorp Group within the Group CEO's authorities and limits.

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

The Suncorp Group has in place a number of Management Committees, each with its own charter, to execute specified responsibilities in the risk framework. Management asset and liability committees are in place to provide effective governance over aspects of the risk framework designed to optimise the long-term returns achieved by asset portfolios within the risk appetite or parameters established by the Board.

The General Insurance line of business also has an Asset and Liability Committee (**ALCO**) and a Risk & Governance Committee (**RGC**). The ALCO provides effective governance over aspects of the risk framework designed to optimise the long-term returns achieved by asset portfolios within any risk appetite or parameters established by the Board. The primary role of the RGC is to oversee the management of governance and other non-financial aspects of selected risks arising from the activities of the business within the Board approved risk parameters: Insurance Risk, Compliance Risk, Operational Risk and Strategic Risk.

The Group includes entities subject to APRA regulation and consequently prepares a Risk Management Strategy (**RMS**) approved by the Board Risk Committee and submitted to APRA annually. The RMS describes the strategy adopted by the Board for managing risk, including the risk appetite, policies, procedures, management responsibilities and controls.

The key risks addressed by the ERMF are defined below.

Key risks	Definition
Credit risk (counterparty risk)	The risk that a counterparty will not meet its obligations in accordance with agreed terms.
Liquidity risk	The risk that the Group will be unable to service its cash flow obligations today or in the future.
Market risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities.
Asset and liability risk	The risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term.
Insurance risk	The risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, concentration risk, reserving, claims management and/or reinsurance management.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Group may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards.
Strategic risk	The risk that our business model or strategy is not viable due to uncertainties in the future operating environment.

Notes to the consolidated financial statements (continued)

35. Risk management (continued)

35.1. Risk management objectives and structure (continued)

The Group is exposed to mainly the following categories of market risks:

Categories of market risk	Definition
Foreign exchange (FX) risk	The risk of an asset or liability's value changing unfavourably due to changes in currency exchange rates.
Interest rate risk	The risk of loss of current and future earnings and unfavourable movements in the value of interest bearing assets and liabilities from changes in interest rates.
Equity risk	The risk of loss in current and future earnings and unfavourable movement in the value of investments in equity instruments from adverse movements in equity prices.
Credit spread risk	Credit spread is the difference in yield due to difference in credit quality. This is the risk of loss in 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.

35.2 Insurance risk management

35.2.1 Policies for mitigating insurance risk

The risk management activities include a well-defined Risk Appetite Statement, prudent underwriting, product design and pricing, acceptance and management of risks, together with claims management and reserving.

The key controls in place to mitigate insurance risk include the following:

- an internal licensing regime within the General Insurance business which sets out delegated authorities and minimum standards for risk controls including monitoring and reporting
- pricing strategies aligned to the business strategy and within risk appetite, with clearly defined pricing mechanisms sourced from technical pricing models and actuarial overview
- the setting and adherence to underwriting guidelines that determine processes and procedures for acceptance of risk
- the setting of formal claims acceptance limits, loss estimation and investigation processes, and the regular review and updating of claims experience data
- the reduction in insurance risk concentration through diversification, implementing reinsurance arrangements to preserve capital and manage earnings volatility from large individual claims or large volumes of claims originating from catastrophic natural disaster events
- the maintenance of appropriate actuarial reserves including regular review by the General Insurance Appointed Actuary of reserves to cover claims incurred but not yet reported, and for claims incurred but not enough reserved
- procedures to manage risk when introducing or changing a product
- the identification and consistent monitoring against budget projections derived from the actuarial projection models external variables which impact claims cash flow such as claims frequency and severity
- managing of risk exposures using various analysis and valuation techniques, including stochastic modelling, to calculate the capital required under adverse risk scenarios
- the monitoring of natural disasters such as floods, storms, earthquakes and other catastrophes. Exposures to such risks are assessed and monitored using externally developed industry standard catastrophe models. In addition, the Board receives General Insurance Financial Condition Reports from the Appointed Actuary who also provide advice in relation to premium, issuing of new policies and reinsurance arrangements in accordance with APRA Prudential Standards.

Notes to the consolidated financial statements (continued)

35. Risk management (continued)

35.2.1 Policies for mitigating insurance risk (continued)

Concentration of insurance risk is mitigated through diversification over classes of insurance business, industry segments, and the use of reinsurer coverage. Catastrophe insurance is also purchased to ensure that any accumulation of losses from a single catastrophic event is mitigated.

35.2.2 Terms and conditions of insurance business

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

35.3. Credit risk

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

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

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 14.

Notes to the consolidated financial statements (continued)

35. Risk management (continued)

35.3. Credit risk (continued)

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

	Credit Rating					
	AAA \$m	AA \$m	A \$m	BBB \$m	Not rated \$m	Total \$m
Consolidated						
2014						
Cash and cash equivalents	-	24.9	196.9	-	-	221.8
Premiums outstanding	-	-	-	-	2,146.6	2,146.6
Accrued interest	36.4	22.5	28.5	5.9	-	93.3
Trade and other receivables	22.9	95.9	225.2	-	25.8	369.8
Derivatives	1.0	11.5	10.4	-	-	22.9
Investment securities	4,341.1	3,337.4	2,048.2	356.3	1,505.4	11,588.4
Reinsurance and other recoveries receivable	382.0	230.9	168.3	-	594.9	1,376.1
	4,783.4	3,723.1	2,677.5	362.2	4,272.7	15,818.9
2013						
Cash and cash equivalents	-	32.3	91.0	-	-	123.3
Premiums outstanding	-	-	-	-	2,024.6	2,024.6
Accrued interest	30.4	40.1	30.4	4.9	-	105.8
Trade and other receivables	27.0	17.6	214.4	0.2	13.1	272.3
Derivatives	-	21.1	18.3	-	-	39.4
Investment securities	4,631.8	3,290.5	1,957.7	274.3	869.5	11,023.8
Reinsurance and other recoveries receivable	394.8	374.8	129.8	4.0	592.9	1,496.3
	5,084.0	3,776.4	2,441.6	283.4	3,500.1	15,085.5
Company						
2014						
Cash and cash equivalents	-	21.1	146.5	-	-	167.6
Premiums outstanding	-	-	-	-	2,146.2	2,146.2
Accrued interest	36.4	22.5	28.5	5.9	-	93.3
Trade and other receivables	22.9	95.9	224.0	-	27.7	370.5
Derivatives	1.0	11.5	10.4	-	-	22.9
Investment securities	4,341.1	3,337.4	2,048.2	356.3	1,505.4	11,588.4
Reinsurance and other recoveries receivable	382.0	230.9	168.5	-	594.7	1,376.1
	4,783.4	3,719.3	2,626.1	362.2	4,274.0	15,765.0
2013						
Cash and cash equivalents	-	9.6	36.9	-	-	46.5
Premiums outstanding	-	-	-	-	523.1	523.1
Accrued interest	5.9	10.6	10.5	1.7	-	28.7
Trade and other receivables	5.3	6.8	124.1	0.1	11.6	147.9
Derivatives	-	5.6	16.8	-	-	22.4
Investment securities	941.4	809.0	692.9	99.9	154.6	2,697.8
Reinsurance and other recoveries receivable	72.5	245.1	106.3	3.6	68.0	495.5
	1,025.1	1,086.7	987.5	105.3	757.3	3,961.9

Note

- 1 Items in the above table only include components of General Insurance assets that are classified as financial assets.
- 2 Receivables neither past due nor impaired in the above table are not rated according to the Standard & Poor's counterparty credit ratings.
- 3 Collateral arrangements exist for non-regulated reinsurers and certain derivative positions. Refer to note 29.4 Master netting or similar arrangements for further information.

Notes to the consolidated financial statements (continued)

35. Risk management (continued)

35.3. Credit risk (continued)

All General Insurance financial assets are neither past due nor impaired at balance date except for those disclosed as past due but not impaired or impaired in the following table. An amount is considered past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis presented.

	Neither past due nor impaired \$m	Past due but not impaired				Impaired \$m	Total \$m
		0-3 mths \$m	3-6 mths \$m	6-12 mths \$m	> 12 mths \$m		
Consolidated							
2014							
Premiums outstanding	2,053.5	59.4	8.7	9.6	9.3	6.1	2,146.6
Trade and other receivables	342.8	19.4	2.3	2.5	2.8	-	369.8
	2,396.3	78.8	11.0	12.1	12.1	6.1	2,516.4
2013							
Premiums outstanding	1,910.1	25.4	62.4	19.6	0.9	6.2	2,024.6
Trade and other receivables	255.8	11.0	3.4	0.6	1.0	0.5	272.3
	2,165.9	36.4	65.8	20.2	1.9	6.7	2,296.9
Company							
2014							
Premiums outstanding	2,053.0	59.5	8.7	9.6	9.3	6.1	2,146.2
Trade and other receivables	343.6	19.3	2.3	2.5	2.8	-	370.5
	2,396.6	78.8	11.0	12.1	12.1	6.1	2,516.7
2013							
Premiums outstanding	457.8	2.3	47.5	12.9	0.3	2.3	523.1
Trade and other receivables	133.4	9.2	3.3	0.6	1.0	0.4	147.9
	591.2	11.5	50.8	13.5	1.3	2.7	671.0

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

Notes to the consolidated financial statements (continued)

35. Risk management (continued)

35.4. Liquidity risk

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

- investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations
- investment funds set aside within the portfolio can be realised to meet significant claims payment obligations
- in the event of a major catastrophe, cash access is available under the terms of reinsurance arrangements
- mandated liquidity limits applied to each entity within the Group.

The following table summarises the maturity profile of the Group financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for outstanding claims liabilities based on the discounted estimated timing of net cash outflows.

Consolidated					
	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total cash flows
	\$m	\$m	\$m	\$m	\$m
2014					
Payables	1,514.5	1,497.2	17.3	-	1,514.5
Unearned premium liabilities	4,083.4	4,083.4	-	-	4,083.4
Net discounted outstanding claims liabilities	6,785.6	2,288.7	3,279.5	1,217.4	6,785.6
Subordinated notes	730.1	217.3	557.6	-	774.9
	13,113.6	8,086.6	3,854.4	1,217.4	13,158.4
Derivative financial instruments					
Derivative liabilities (net settled)	100.5	46.4	50.8	23.5	120.7
Amounts receivable (gross settled)	-	(10.6)	(246.4)	-	(257.0)
Amounts payable (gross settled)	48.7	10.4	313.7	-	324.1
	149.2	46.2	118.1	23.5	187.8
2013					
Payables	1,341.9	1,327.6	14.3	-	1,341.9
Financial liabilities	3.5	3.5	-	-	3.5
Unearned premium liabilities	4,034.9	4,034.9	-	-	4,034.9
Net discounted outstanding claims liabilities	6,637.7	2,261.5	3,193.5	1,182.7	6,637.7
Subordinated notes	723.5	39.9	752.5	-	792.4
	12,741.5	7,667.4	3,960.3	1,182.7	12,810.4
Derivative financial instruments					
Derivative liabilities (net settled)	52.4	27.2	33.4	9.6	70.2
Amounts receivable (gross settled)	-	(12.5)	(237.2)	-	(249.7)
Amounts payable (gross settled)	63.1	11.7	330.6	-	342.3
	115.5	26.4	126.8	9.6	162.8

Note

1. Payables only include components of payables and other liabilities that are classified as financial liabilities.

Notes to the consolidated financial statements (continued)

35. Risk management (continued)

35.4. Liquidity risk (continued)

Company	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total cash flows
	\$m	\$m	\$m	\$m	\$m
2014					
Payables	1,570.2	1,552.9	17.3	-	1,570.2
Financial liabilities	218.6	13.7	246.4	-	260.1
Unearned premium liabilities	4,083.4	4,083.4	-	-	4,083.4
Net discounted outstanding claims liabilities	6,785.6	2,288.7	3,279.5	1,217.4	6,785.6
Subordinated notes	486.4	203.6	311.2	-	514.8
	13,144.2	8,142.3	3,854.4	1,217.4	13,214.1
Derivative financial instruments					
Derivative liabilities (net settled)	100.5	46.4	50.8	23.5	120.7
Amounts receivable (gross settled)	-	(10.6)	(246.4)	-	(257.0)
Amounts payable (gross settled)	48.7	10.4	313.7	-	324.1
	149.2	46.2	118.1	23.5	187.8
2013					
Payables	613.0	613.0	-	-	613.0
Financial liabilities	227.1	40.4	237.0	-	277.4
Unearned premium liabilities	873.6	873.6	-	-	873.6
Net discounted outstanding claims liabilities	1,354.9	506.5	503.0	345.4	1,354.9
Subordinated notes	491.3	27.4	515.3	-	542.7
	3,559.9	2,060.9	1,255.3	345.4	3,661.6
Derivative financial instruments					
Derivative liabilities (net settled)	14.7	8.2	8.7	4.4	21.3
Amounts receivable (gross settled)	-	(12.5)	(237.2)	-	(249.7)
Amounts payable (gross settled)	63.1	11.7	330.6	-	342.3
	77.8	7.4	102.1	4.4	113.9

Note

1. Payables only include components of payables and other liabilities that are classified as financial liabilities.

Notes to the consolidated financial statements (continued)

35. Risk management (continued)

35.5. Market risk

35.5.1. Interest rate risk

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

The sensitivity of profit and loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. There is no impact on equity reserves. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. The movements in interest rate used in the sensitivity analysis for 2014 have been revised to reflect an updated assessment of the reasonable possible changes in interest rates over the next twelve months, given renewed observations and experience in the investment markets during the financial year.

	2014			2013		
	Exposure at 30 June	Change in interest rate	Profit / (loss) after tax	Exposure at 30 June	Change in interest rate	Profit / (loss) after tax
	\$m	bp	\$m	\$m	bp	\$m
Consolidated						
Interest-bearing investment securities (including derivative financial instruments)	11,423.8	+125	(178.0)	10,947.6	+ 125	(270.8)
		- 25	37.4		- 50	114.9
Subordinated notes (including derivative financial instruments)	608.6	+125	5.3	601.8	+ 125	(5.3)
		- 25	(1.1)		- 50	2.1
Company						
Interest-bearing investment securities (including derivative financial instruments)	11,423.8	+125	(178.0)	2,642.4	+ 125	(66.2)
		- 25	37.4	369.6	- 50	28.2
Subordinated notes (including derivative financial instruments)	364.9	+125	3.1	369.6	+125	(3.2)
		- 25	(0.6)		- 50	1.3

The effect of interest rate movements on the Group's provision for outstanding claims is included in note 22.5.

Notes to the consolidated financial statements (continued)

35. Risk management (continued)

35.5. Market risk (continued)

35.5.2. Foreign exchange risk

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

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

The Group is also exposed to foreign exchange risk through investments in foreign securities, which is managed via the use of cross-currency swaps. The Group also carries subordinated notes with a foreign currency exposure in GBP, which is managed via the use of cross-currency swaps. The Group utilises a qualifying hedge to significantly reduce this exposure.

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

The movements in the foreign exchange used in the sensitivity analysis for 2014 have been revised to reflect updated assessment of the reasonable possible changes in foreign exchange rates over the next twelve months given renewed observations and experience in the investment markets during the financial year.

	2014			2013		
	Exposure at 30 June \$m	Change in FX rate %	Profit / (loss) after tax \$m	Exposure at 30 June \$m	Change in FX rate %	Profit / (loss) after tax \$m
Consolidated						
USD	132.5	+ 10 - 10	8.7 (9.7)	160.0	+ 10 - 10	10.6 (11.7)
Euro	25.3	+ 10 - 10	1.7 (1.9)	41.6	+ 15 - 15	4.1 (4.5)
GBP	30.4	+ 10 - 10	2.0 (2.2)	23.0	+ 15 - 15	2.3 (2.5)
JPY	24.0	+ 10 - 10	1.6 (1.8)	21.7	+ 15 - 15	2.3 (2.3)
Other	56.5	+ 10 - 10	3.8 (4.1)	20.4	+ 15 - 15	2.1 (2.1)
Company						
USD	132.5	+ 10 - 10	8.7 (9.7)	84.4	+ 10 - 10	5.6 (6.2)
Euro	25.3	+ 10 - 10	1.7 (1.9)	20.4	+ 15 - 15	2.0 (2.2)
GBP	30.4	+ 10 - 10	2.0 (2.2)	11.3	+ 15 - 15	1.1 (1.2)
JPY	24.0	+ 10 - 10	1.6 (1.8)	10.6	+ 15 - 15	1.1 (1.1)
Other	56.5	+ 10 - 10	3.8 (4.1)	10.1	+ 15 - 15	1.0 (1.0)

Notes to the consolidated financial statements (continued)

35. Risk management (continued)

35.5.3. Equity risk

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

	2014			2013		
	Exposure at 30 June \$m	Change in equity prices %	Profit/(loss) after tax \$m	Exposure at 30 June \$m	Change in equity prices %	Profit/(loss) after tax \$m
Consolidated						
Australian equities	245.5	+15	25.8	268.5	+ 15	28.2
		- 15	(25.8)		- 15	(28.2)
International equities	250.7	+15	26.3	287.2	+ 15	30.2
		- 15	(26.3)		- 15	(30.2)
Company						
Australian equities	245.5	+ 15	25.8	132.1	+ 15	13.9
		- 15	(25.8)		- 15	(13.9)
International equities	250.7	+ 15	26.3	141.1	+ 15	14.8
		- 15	(26.3)		- 15	(14.8)

35.5.4 Credit spread risk

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

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

The movements in the credit spread used in the sensitivity analysis for 2014 have been revised to reflect updated assessment of the reasonable possible changes in credit spread over the next twelve months given renewed observations and experience in the investment markets during the financial year.

	2014			2013		
	Exposure at 30 June \$m	Change in credit spread bp	Profit / (loss) after tax \$m	Exposure at 30 June \$m	Change in credit spread bp	Profit / (loss) after tax \$m
Consolidated						
Credit exposure (excluding semi-government)	5,772.4	+ 75	(92.6)	6,636.5	+ 75	(87.2)
		- 25	31.6		- 50	59.5
Credit exposure (semi-government)	2,185.4	+ 50	(40.3)	1,729.7	+ 50	(35.6)
		- 20	16.5		- 30	22.3
Company						
Credit exposure (excluding semi-government)	5,772.4	+ 75	(92.6)	1,887.4	+ 75	(27.2)
	-	- 25	31.6	-	- 50	18.6
Credit exposure (semi-government)	2,185.4	+ 50	(40.3)	335.6	+ 50	(6.8)
	-	- 20	16.5	-	- 30	4.3

Notes to the consolidated financial statements (continued)

35. Risk management (continued)

35.6 Derivative financial instruments and hedging

Use of derivatives

Derivative financial instruments are used by the Group to mitigate interest rate, foreign exchange and equity price risks. They are also used to a limited degree within the insurance investment portfolios where it is more efficient to use derivatives rather than physical securities in managing investment portfolios.

Derivatives used include exchange traded bill and bond futures, equity index futures and interest rate and equity options.

The use of derivatives is consistent with the objectives of the overall investment strategies of the investment portfolios, and one of the means by which these strategies are implemented. Derivatives are used for position management purposes. Interest rate derivatives are a cost effective way to acquire the desired duration, curve or sector positioning for the investments backing the insurance liabilities. Foreign exchange derivatives are used to manage any foreign exchange risks.

The RMS approved by the Board establishes the basis on which derivative financial instruments may be used within the investment portfolios. The preparation and enforcement of the RMS is a critical requirement for licensed insurers. The RMS forms the basis of the discussion in this note on derivative financial instruments. The RMS and investment mandates prohibit the use of derivatives for speculative purposes or for leveraged trading. Leverage here is defined as creating a portfolio which would have sensitivity to an underlying economic or financial variable which is greater than could be achieved using only physical securities.

Exposure limits have been established with respect to the various asset classes. Within each asset class, derivative exposure limits are identified in the RMS and limits have been established on daily transaction levels. For over the counter derivatives, authorised counterparties must have a minimum Standard and Poor's rating of "A".

Management is responsible for ensuring that all investment mandates are within risk appetite and comply with all relevant Group policies and external laws and regulations. The investment manager is responsible for ensuring that derivative positions comply with investment mandates and any relevant law or policy. Management monitors the Investment Manager's compliance with the investment mandates including the use of derivatives.

Hedging of fluctuations in interest and foreign exchange rates

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

At balance date the Group has interest rate swaps designated as hedges and classified as fair value hedges of fixed rate subordinated note issues. All other interest rate derivatives are accounted for as fair value through profit or loss.

Hedge accounting has been adopted by the Group for the interest rate swaps hedging the fair value translation risk arising on fixed rate subordinated note issues. All cross currency interest rate swaps entered into by the Group are designated as hedges using the split approach. Under this approach the benchmark rate component of the swap is accounted for as a fair value hedge and the margin component as a cash flow hedge.

Notes to the consolidated financial statements (continued)

35.6 Derivative financial instruments and hedging (continued)

	Consolidated		Company	
	Split Approach			
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Hedging of fluctuations in interest and foreign exchange rates				
Notional value of cross currency swaps designated as hedges	291.0	291.0	291.0	291.0
Notional value of interest rate swaps designated as hedges	228.7	228.7	228.7	228.7
<i>Fair value</i>				
net pay cross currency swaps	(48.7)	(63.1)	(48.7)	(63.1)
net receive interest rate swaps	10.5	15.9	10.5	15.9
	(38.2)	(47.2)	(38.2)	(47.2)

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

	0 to 12 months	1 to 5 years	Over 5 years	Total expected cash flows
	\$m	\$m	\$m	\$m
Consolidated				
2014				
Forecast receivable cashflows	1.4	2.9	-	4.3
Forecast payable cashflows	(2.7)	(5.2)	-	(7.9)
	(1.3)	(2.3)	-	(3.6)
2013				
Forecast receivable cashflows	1.4	4.1	-	5.5
Forecast payable cashflows	(2.7)	(8.0)	-	(10.7)
	(1.3)	(3.9)	-	(5.2)
Company				
2014				
Forecast receivable cashflows	1.4	2.9	-	4.3
Forecast payable cashflows	(2.7)	(5.2)	-	(7.9)
	(1.3)	(2.3)	-	(3.6)
2013				
Forecast receivable cashflows	1.4	4.1	-	5.5
Forecast payable cashflows	(2.7)	(8.0)	-	(10.7)
	(1.3)	(3.9)	-	(5.2)

Notes to the consolidated financial statements (continued)

36. Auditors' remuneration

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Audit and review services				
Auditors of the Company - KPMG Australia				
Audit and review of financial reports	1,618	2,281	1,506	762
Other regulatory audits	327	600	298	183
	1,945	2,881	1,804	945
Other services				
In relation to other assurance, actuarial, taxation and non-audit services	100	404	100	71
	2,045	3,285	1,904	1,016

The above consolidated amounts only relate to those subsidiaries within the Group which have been separately identifiable.

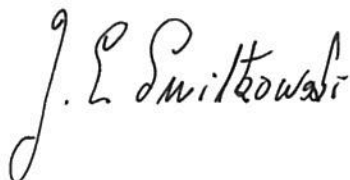
37. Subsequent events

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

Directors' declaration

1. In the opinion of the directors of AAI Limited (the **Company**):
 - (a) The consolidated financial statements and notes set out on pages 5 to 72, 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 2014 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
2. The directors draw attention to note 3.1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors.



Dr Zygmunt E Switkowski AO
Director



Patrick J R Snowball
Managing Director and Group CEO

13 August 2014



Independent auditor's report to the members of AAI Limited

We have audited the accompanying financial report of AAI Limited (the Company), which comprises the statements of financial position as at 30 June 2014, and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, notes 2 to 37 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 3.1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of AAI Limited is 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 2014 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 3.1.

KPMG

Paul Ruiz
Partner

Brisbane

13 August 2014