Suncorp-Metway Limited and subsidiaries

ABN 66 010 831 722

Directors' report & consolidated financial report

for the financial year ended 30 June 2013

One Company Many Brands

SUNCORP GROUP

Suncorp-Metway Limited and subsidiaries

ABN 66 010 831 722

Directors' Report

30 June 2013

The directors present their report together with the financial report of **Suncorp-Metway Limited** (**the Company**) and of **the Group**, being the Company and its subsidiaries, for the financial year ended 30 June 2013 and the auditor's report thereon.

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Remuneration Report

Directors' Report

1. Directors

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

Ilana R Atlas
BJuris (Hons) (WAust); LLB (Hons) (WAust), LLM (Syd)
Age 58
Non-executive director
Chairman Remuneration Committee and Member Risk Committee

Director since January 2011. Ms Atlas is a director of Coca-Cola Amatil Limited, Westfield Holdings Limited and the Human Rights Law Centre. She is Chairman of Bell Shakespeare and Pro-Chancellor of the Australian National University.

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

Listed company directorships held since 1 July 2010

Company name	Appointed	Resigned
Coca-Cola Amatil Limited	24.02.11	
Suncorp Group Limited	01.01.11	
Westfield Holdings Limited	25.05.11	

William J Bartlett
FCA, CPA, FCMA, CA (SA)
Age 64
Non-executive director
Chairman Audit Committee and Member Risk and Remuneration Committees

Director since December 2010 and director of Suncorp-Metway Limited since July 2003. Mr Bartlett is a director of Reinsurance Group of America Inc., GWA International Limited and Abacus Property Group. He is also Chairman of the Council of Governors of the Cerebral Palsy Foundation.

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

Listed company directorships held since 1 July 2010

Company name	Appointed	Resigned
Abacus Property Group	14.02.07	
GWA International Limited	21.02.07	
Reinsurance Group of America Inc. (NYSE)	26.05.04	
Suncorp Group Limited	01.07.03	

Michael A Cameron
FCPA, FCA, FAICD
Age 53
Non-executive director
Member Remuneration Committee

Director since April 2012. Mr Cameron has been Chief Executive Officer and Managing Director of The GPT Group since May 2009. He has over 30 years' experience in finance and business.

Mr Cameron is a fellow of each of the Australian Institute of Chartered Accountants, CPA Australia and the Australian Institute of Company Directors.

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

Mr Cameron was Chief Financial Officer at St. George Bank Limited from mid-2007 until the sale to Westpac Banking Corporation in December 2008.

Listed company directorships held since 1 July 2010

Company name	Appointed	Resigned
Suncorp Group Limited	16.04.12	
GPT Management Holding Limited (The GPT Group)	01.05.09	

Audette E Exel
BA, LLB (Hons)
Age 50
Non-executive director
Member Risk Committee

Director since June 2012. Ms Exel is a founder of the ISIS Group and Chief Executive Officer of its Australian company, ISIS (Asia Pacific) Pty Limited. She is also co-founder and Chair of The ISIS Foundation and is Vice Chairman of the Board of The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited.

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

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

Listed company directorships held since 1 July 2010

Company name	Appointed	Resigned
Suncorp Group Limited	27.06.12	

1. Directors (continued)

Ewoud J Kulk
BEcon, FAICD
Age 67
Non-executive director
Chairman Risk Committee and Member Remuneration Committee

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

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

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

Listed company directorships held since 1 July 2010

Company name	Appointed	Resigned
Suncorp Group Limited	20.03.07	

Dr Douglas F McTaggart
BEcon (Hons), MA, PhD, DUniv
Age 60
Non-executive director
Member Audit Committee

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

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

Listed company directorships held since 1 July 2010

Company name	Appointed	Resigned
Suncorp Group Limited	16.04.12	
Telesso Technologies Limited	01.11.07	09.10.12
UGL Limited	04.09.12	

Geoffrey T Ricketts
LLB (Hons)
Age 67
Non-executive director
Member Audit Committee

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

Mr Ricketts is Chairman of Todd Corporation Limited (NZ), and a director of Shopping Centres Australasia Property Group Trustee NZ Limited, Heartland New Zealand Limited and Heartland Building Society (NZ). He is also a director of the Centre for Independent Studies Limited, a lawyer and a consultant for Russell McVeagh, Solicitors (NZ) and was a partner in that firm from 1973 until 2000.

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

Listed company directorships held since 1 July 2010

Company name	Appointed	Resigned
Heartland New Zealand Limited (NZX)	05.01.11	
Suncorp Group Limited	20.03.07	
Spotless Group Limited	08.07.96	16.08.12

Patrick J R Snowball
MA, Hon. LL.D
Age 63
Managing Director and Group Chief Executive Officer
(**Group CEO**)

Managing Director since December 2010 and Managing Director of Suncorp-Metway Limited since joining the Group on 1 September 2009. Mr Snowball is an experienced financial services executive with extensive knowledge of the insurance industry, having overseen businesses in Australia, the United Kingdom, Ireland, Canada and Asia.

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

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

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

Listed company directorships held since 1 July 2010

Company name	Appointed	Resigned
Suncorp Group Limited	01.09.09	

1. Directors (continued)

Dr Zygmunt E Switkowski
BSc (Hons), PhD, FAICD, FTSE
Age 65
Non-executive Chairman
Ex-officio member Audit, Risk and Remuneration Committees

Chairman since October 2011, director since December 2010 and director of Suncorp-Metway Limited since September 2005. Dr Switkowski is a director of Tabcorp Holdings Limited, Oil Search Limited and Chancellor of RMIT University.

He is a fellow of both the Australian Academy of Technological Sciences and Engineering and the Australian Institute of Company Directors.

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

Listed company directorships held since 1 July 20010

Company name	Appointed	Resigned
Oil Search Limited	22.11.10	
Suncorp Group Limited	19.09.05	
Tabcorp Holdings Limited	02.10.06	
Lynas Corporation Ltd	01.02.11	20.08.13
Healthscope Limited	19.01.06	12.10.10

2. Company secretary

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

Darren C Solomon LLB was appointed joint Company Secretary in March 2010. Mr Solomon has more than 20 years' legal and company secretarial experience within banking and financial services.

3. Directors' meetings

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

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year ended 30 June 2013 were:

	BOARD OF DIRECTORS		AUDIT COMMITTEE		RISK COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
Dr Z E Switkowski	14	14	6	6	5	5	5	5	2	2
P J R Snowball [1]	14	14	6	6	5	5	5	5	-	-
I R Atlas	14	13	-	-	5	5	5	5	2	2
W J Bartlett	14	14	6	6	5	5	5	5	2	2
M A Cameron	14	13	-	-	-	-	2	2	2	1
A E Exel	14	10	-	-	1	1	-	-	2	2
E J Kulk	14	13	-	-	5	5	5	5	2	2
Dr D F McTaggart	14	14	6	6	-	-	-	-	2	2
G T Ricketts	14	13	6	4	-	-	-	-	2	2

A number of meetings held during the year while the director was a member of the Board or committee.
B number of meetings attended by the director during the year while the director was a member of the Board or committee.
1. The Suncorp Group CEO attends Audit Committee, Risk Committee and Remuneration Committee meetings at the invitation of those committees. There are no management representatives appointed as members of any board committee.

4. Remuneration Report

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

5. Principal activities

The Company is an authorised deposit-taking institution (**ADI**). The principal activities of the Group during the course of the year were the provision of banking and related services to the retail, corporate and commercial sectors in Australia. The Group conducts the Banking operations of the Suncorp Group.

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

5.1. Group's objectives

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

The strategic objectives of the Suncorp Group are to:

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

The objectives of the Company are to deliver to these objectives in the context of the Company's activities as an ADI.

6. Operating and financial review

The principal activities and objectives of the Group are outlined in section 5 of the Directors' Report.

Information on the Group's operating segments is included in note 4 of the consolidated financial statements.

6.1. Overview of the Group

The Group recorded a loss after tax from continuing operations of $349 million (2012: $22 million profit). This result includes an after tax loss of $632 million for the Non-core Bank. The Core business results have been achieved through strong top-line growth, maintained or growing margins and improved operational efficiencies. The Group's statutory loss is $6 million higher (2012: profit was $4 million lower) than the Banking net profit (loss) after tax recorded in the Suncorp Group Analyst Pack due to intra-group operating expenses.

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

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

6.2. Review of principal businesses

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

Total loans, advances and other receivables increased to $48,365 million due to the growth in the Core lending portfolio, partially offset by the Non-core portfolio sale and continued run-off in the Non-core portfolio during the year.

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

The Commercial (SME) portfolio increased 9.2% to $5.5 billion. The growth reflects an increased share in low risk areas of new business within the Health, Self-Managed Super Funds and Franchise lending sectors.

The Agribusiness portfolio increased 11.8% to $4.3 billion, underpinning growth in market share across Queensland and NSW. New business was of desired credit quality and was sourced from a number of rural sectors, assisting in portfolio diversification. Growth was achieved by leveraging recent investment in capability and the Bank's long heritage and strength of brand in the Agribusiness sector. The portfolio is well-diversified across sector with less than 30% concentration in Beef and Grain/Mixed Farming respectively. Geographically, 35% of the portfolio is outside the Queensland market, with South Australia, New South Wales and Western Australia all growing their respective contributions.

6.2. Review of principal businesses (continued)

Retail deposits are managed to support the Core Bank's lending growth, liquidity and revenue objectives. The retail deposit to core lending ratio is currently at 66.5%. It is expected that this ratio will be managed around these levels over the short to medium term. The Group has achieved material benefits from investments in the retail distribution footprint and capability.

Transaction account balances grew 22% in the year to 30 June 2013. Interstate expansion has enabled diversification of the Group's retail funding base. Interstate transaction account balances grew 50% in the year to 30 June 2013.

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

Operating expenses were $628 million. The increase of 4.1% on the prior year reflects the one-off transaction costs associated with the Non-core portfolio sale. The Core Bank cost to income ratio remained steady at 53.0% compared with 52.8% in the 2012 financial year.

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

6.3. Financial position and capital structure

6.3.1. Financial position

Total assets decreased by $311 million or 0.5% compared with 30 June 2012

Cash and cash equivalents increased by $356 million predominantly due to the increase in funds held in short-term call and notice accounts due to higher excess liquidity at 30 June 2013.

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

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

Investment securities increased by $332 million due to growth in held-to-maturity investments, consisting of predominantly long-term floating rate notes and mortgage-backed securities. A strategic decrease of holdings in short-term liquid assets classified as 'trading securities' in favour of comparatively higher yielding term debt classified as 'investment securities' also contributed to the increase.

Loans, advances and other receivables increased by $844 million due to the growth in the Core lending portfolio, particularly in Home lending growth. This was partially offset by continued run-off in the Non-core portfolio during the year and the Non-core portfolio sale in June 2013.

Total liabilities decreased by $712 million or 1.2% compared to 30 June 2012

Deposits and short-term borrowings increased by $2,340 million due to continued strategic growth in retail call and term deposits which exceeded a decrease in lower margin wholesale term deposits.

Derivatives decreased by $1,385 million due to the maturity of several large cross currency swaps which were hedging long-term maturing offshore debt issues and subordinated notes.

Securitisation liabilities increased by $963 million due to the issuances by two new special purpose vehicles (Apollo Series 2012-1 and 2013-1 Trusts) established during the year, partially offset by the termination of Apollo Series 2005-1E Trust and run-off in existing securitised loans.

Debt issues decreased by $2,285 million due to the decrease in offshore funding by $2,075 million during the year, following the maturity of two US dollar Government guaranteed borrowings as a result of the Non-core portfolio run-off. Onshore funding decreased by $210 million, due to the maturity of $1,040 million and buy-back of a further $1,225 million, in domestic long-term debt. This was offset by the issuance of $1,450 million of floating rate notes and $598 million in covered bonds during the year.

Subordinated notes increased by $174 million driven by the Company's issuance of $670 million of subordinated notes to SGL in June 2013. This is offset by the maturity of two fixed rate notes (USD and GBP) with a 2012 carrying value of $104 million and $392 million respectively.

6.3.1. Financial position (continued)

Preference shares decreased by $732 million due to the mandatory conversion of preference shares (CPS) of $735 million on 14 June 2013. At the same time, they were converted to ordinary shares, issued to SBGH Limited, and immediately bought back by the Company.

Total equity increased by $401 million or 14.6% compared to 30 June 2012

Share capital increased by $263 million due to the capital injection received from SBGH Limited in June 2013.

Capital notes increased by $450 million due to the issue of $450 million in unsecured, perpetual, subordinated capital notes to SGL in December 2012.

Reserves increased by $33 million due to movement in cash flow hedges and Equity Reserve for Credit Losses (**ERCL**).

Retained profits decreased by $345 million due to the current year loss, dividends paid to SGL on the capital notes, offset by transfers from the ERCL.

6.3.2. Capital structure

The capital management strategy of the Suncorp Group is to optimise shareholder value by managing the level, mix and use of capital resources. The main objectives are to support the Suncorp Group's credit rating, ensure 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. The Suncorp Group's capital policy is to hold all surplus capital in SGL as it is the holding company of the Suncorp Group.

Over the financial year, the Group's capital requirements have decreased due to the capital released from the decline in the non-core loan portfolio. This has offset the organic growth of the core business.

Key capital initiatives during the year included:

- redemption of $406 million of subordinated notes in October 2012
- issuance of $450 million of Basel III compliant subordinated, perpetual capital notes in December 2012
- redemption of $104 million of subordinated notes in June 2013
- conversion of $735 million of converting preference shares to ordinary shares and subsequent buy-back of the $735 million of ordinary shares in June 2013
- issuance of $670 million of Basel III compliant subordinated notes in June 2013; and
- raising $263 million in share capital in June 2013 via the issue of 26.3 million shares at $10 per share.

The capital adequacy ratio of the Group calculated strictly in accordance with the Australian Prudential Regulation Authority's (**APRA**) Basel III guidelines as at 30 June 2013 was 12.52% (2012: 12.50% (adjusted for Basel III)).

The Group satisfied all externally imposed capital requirements which it is subject to during the current and prior financial years.

6.4. Impact of legislation and other external requirements

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

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

Legislation has been passed by Federal Parliament that will require large corporate entities to make Pay As You Go tax instalments monthly instead of quarterly. The Federal Government has released the report of the Australian Law Reform Commission called *Access All Ages – Older Workers and Commonwealth Laws*. The report makes recommendations across superannuation, employment, insurance and compensation law which are intended to reduce age discrimination and increase mature age workforce participation. The Federal Government has indicated that it will further consider those recommendations.

6.4. Impact of legislation and other external requirements (continued)

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

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

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

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

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

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

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

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

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

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

All of these legislative and regulatory reforms and other proposals and inquiries in Australia will or could impact the Group's operations.

6.5. Significant changes in the state of affairs

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

The Banking Platform Project is progressing with the Group's new Customer Relationship Management system now live and delivering.

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

6.5. Significant changes in the state of affairs (continued)

On 13 June 2013, the Group announced the sale of a $1.6 billion non-core loan portfolio, consisting of corporate and property assets, to the Goldman Sachs Group, at a weighted average of 60 cents in the dollar (net receivables). This follows the execution of an orderly run-off strategy over the last four years. The residual non-core portfolio of approximately $735 million will be managed as part of the Group's total lending portfolio, with the majority expected to be settled over the 2014 financial year.

Basel III regulatory standards, affecting the Group's capital and liquidity requirements, were implemented in January 2013 to provide a consistent approach to measuring capital across the Suncorp Group. The increased comparability of businesses has allowed adoption of consistent capital metrics across the Suncorp Group.

The Group issued two capital instruments over the past 12 months, including capital notes in December 2012 (raising $450 million of Additional Tier 1 capital) and subordinated notes in June 2013 (raising $670 million of Tier 2 regulatory capital). The Group also raised a further $263 million of share capital via the issue of 26.3 million ordinary shares in June 2013.

Consistent Risk-Based Capital models were introduced and used for the first time in 2013 to inform business plans across the Suncorp Group. This capability is expected to further evolve and facilitate improved understanding of risks across the Group. This will also assist in achievement of Advanced Accreditation for the Group.

6.6. Environmental regulation

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

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

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

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

7. Dividends

There were no dividends provided for or paid by the Group during the year.

Further details of dividends provided for or paid for the financial year ended 30 June 2012 are set out in note 9 to the consolidated financial statements.

8. Likely developments

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

Simplification initiatives will continue to deliver benefits ahead of plan and should also provide the foundation for delivering the other key market commitments of:

- Suncorp Group growth of 7% to 9% per annum over the next two years
- Suncorp Group ROE of at least 10% by 2015.
- An ordinary dividend pay-out ratio of 60% to 80% of cash earnings, and
- Continuing to return surplus capital.

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

8. Likely developments (continued)

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

- Cost – lowering the unit cost of procurement by leveraging the Suncorp Group's scale, buying power and supplier relationships
- Capital – delivering a diversification benefit through improved risk-based modelling and ultimately a reduction in the quantum of capital held across the Group
- Customer – enhancing the value of 9 million customer connections by deepening their relationships with the Group brands, and
- Culture – operating as 'One Company. Many Brands. One Team' and positioning Suncorp as THE place to work in Australia and New Zealand.

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

9. Key internal and external risks

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

- Economic instability or a continued 'low yield' environment, resulting in an overall decrease in profitability and growth. Current responses around investment and selective pricing strategies continue to be employed and remain appropriate.
- Risks relating to the use of service providers. Governance processes, as well as contract and service management processes are in place to mitigate this risk.
- Regulatory change and supervision impacting the Group's financial position. The business has dedicated and well-established regulatory change programs in place to manage and facilitate any change, and include regular engagement with regulators and ratings agencies.

10. Events subsequent to reporting date

On 16 July 2013, the Group repurchased Government guaranteed debt with a total carrying value of $851 million for $867 million resulting in a loss on repurchase of $16 million.

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

11. Directors' interests

No director holds any interest in the Company as at 30 June 2013.

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

	2013 fully paid ordinary shares
Dr Z E Switkowski	201,599
I R Atlas	11,635
W J Bartlett	26,968
M A Cameron	5,000
A E Exel	989
E J Kulk	20,173
Dr D F McTaggart	11,000
G T Ricketts	26,349
P J R Snowball [1]	1,422,085

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

Mr. Kulk also holds 3,000 SGL convertible preference shares.

12. Indemnification and insurance of officers

The Company's ultimate parent entity, SGL, 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. SGL's Constitution stipulates that it 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*.

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

During the financial year ended 30 June 2013, SGL paid insurance premiums in respect of a directors' and officers' liability insurance contract. The contract insures each person who is or has been a director or executive officer (as defined in the *Corporations Act 2001*) of the Company against certain liabilities arising in the course of their duties to the Company and its subsidiaries. The directors have not included details of the nature of the liabilities covered or the amount of the total premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

13. Non-audit services

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

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

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

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

	2013 $'000	2012 $'000
Services other than statutory audit		
Audit-related fees (regulatory)		
APRA reporting	**455**	587
Australian Financial Services Licences	**11**	11
Other regulatory compliance services	**22**	21
	488	619
Audit-related fees (non-regulatory)		
Other assurance services	**606**	404
	606	404
Tax fees		
Tax compliance	**10**	9
	1,104	1,032

14. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 38 and forms part of the directors' report for the financial year ended 30 June 2013.

15. Rounding off

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

2013 Remuneration Report

The Board presents the Suncorp-Metway Limited Remuneration Report for the financial year ended 30 June 2013 (2013).

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

It should be noted that the Suncorp Group completed a restructure on 7 January 2011 which resulted in Suncorp Group Limited (**SGL**) replacing Suncorp-Metway Limited (the **Company**) as the ultimate parent of the Suncorp Group. As both SGL and the Company are disclosing entities, separate remuneration reports are required.

The Group is subject to the remuneration framework determined by the Suncorp Group, being SGL and its subsidiaries. The composition of the Board for the Company is consistent with that of SGL. Throughout this Report, for consistency, references are made to the Suncorp Group's remuneration arrangements rather than the Group's remuneration arrangements. References in this Report to Group CEO and Senior Executives are to the Suncorp Group CEO and Suncorp Group Senior Executives.

This Remuneration Report is structured in three sections:

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

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

1. Remuneration overview – unaudited

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

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

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

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

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

1.1. Remuneration in 2013

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

Executive summary

Restraint in fees for non-executive directors and fixed remuneration for executives	• Non-executive directors did not receive a fee increase for the second successive year. • The Group CEO, most Senior Executives and most Executive General Managers across the Suncorp Group did not receive an increase to fixed remuneration.
Focus of executives on leading simplification programs	• 'Strategic initiatives' were introduced to executives' scorecards, to focus executives on leading the Suncorp Group's transformation. • Behavioural requirements are also considered in the evaluation of performance outcomes.

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

Changes for 2014

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

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

Influences on remuneration in 2013

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

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

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

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

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

Profit from the Suncorp Group's principal businesses of General Insurance, Core Bank and Suncorp Life increased by 19% to $1,232 million from $1,033 million in 2012. The total Suncorp Group's Net Profit After Tax (NPAT) for the year of $496 million is lower than the 2012 NPAT of $728 million. The reduction in total Suncorp Group NPAT was caused by the resolution of the Non-core Bank, resulting in an after tax loss of $632 million from this portfolio. The Remuneration Committee believes the $1,232 million profit from the

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

Suncorp Group's core businesses provides shareholders with an appropriate basis for determining the true value of the Suncorp Group and the 19% increase reflects the significant progress against our strategic agenda over the last year.

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

1.2. 2013 Actual remuneration outcomes

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

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

Short-term incentives 2013
STI rewards employees for strong performance outcomes and, together with an assessment against integrated risk management frameworks, ensures a focus on Suncorp Group's sustainable profitability. STI is subject to clawback under certain conditions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr Nesbitt did not participate in the 2009 Grant.

Section 2.8 has further details on 2013 LTI outcomes.

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

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

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

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

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

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

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

Remuneration of the Group CEO and Senior Executives in 2013

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

1. Remuneration earned in 2013 comprises:
   - fixed remuneration (actual fixed remuneration received, including salary sacrificed benefits and employer superannuation); and
   - incentives which relate to the 2013 performance period that are not deferred.
2. Fixed remuneration takes into account the fixed remuneration increase for Mr Gary Dransfield effective 1 January 2013.
3. Incentives for the 2013 year. For the Group CEO, this represents 50% of the total STI for 2013 and was paid in August 2013. For Senior Executives this represents 65% of the total STI for 2013 and is paid in September 2013.
4. Past 'at-risk' remuneration received comprises LTI and deferred STI awarded in previous years that vested during 2013.
5. The deferred 2010 STI for the Group CEO, which vested on 31 July 2012 and was paid on 8 August 2012, includes interest accrued during the deferral period. The deferred 2011 STI for the Group CEO and Senior Executives is not included in the table above as it was not earned or received in 2013.
6. LTI (equity) vested represents performance rights vested during 2013 multiplied by the closing share price at the date of vesting.
7. 'Remuneration earned in 2013' plus 'Past 'at-risk' remuneration received in 2013'

8. Future 'at-risk' remuneration awarded in 2013 comprises the cash value of the deferred incentives, excluding the value of any future interest payable on vesting and the face value of the LTI awarded in 2013 that may conditionally vest in future years, and is not guaranteed.
9. 2013 incentives (deferred as cash) represent the deferred portion of incentives awarded for 2013. For the Group CEO, this represents 50% of the total STI for 2013. For Senior Executives this represents 35% of the total STI for 2013. These awards are subject to potential clawback during the deferral period.
10. LTI (equity) represents the face value of performance rights granted under the Executive Performance Share Plan (EPSP) during 2013. The value for the Group CEO represents the $4m approved by shareholders at the 2012 AGM. The Group CEO's proposed 2014 Grant (requiring shareholder approval) is not included. For further details of the LTI program, refer to Section 2.7.
11. The Group Chief Financial Officer's 3 May 2010 Grant (which vested on 2 May 2013), was made on Mr Nesbitt's appointment to the Suncorp Group.
12. Ms Lenahan, Group Executive Group General Counsel and Company Secretary, was appointed a Senior Executive effective 1 June 2013. Remuneration details are provided in the statutory table in section 2.9, and excluded from the table above as it relates to one month of remuneration. Ms Lenahan was not granted any LTI whilst she held the Senior Executive position.

2. Executive remuneration – audited

2.1. Remuneration governance

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

- supports the Board to fulfil its responsibility to shareholders with regard to prudent remuneration management and compliance with the requirements of APRA's prudential standards
- considers strong remuneration governance as an ongoing, continual improvement activity
- closely monitors the remuneration framework to ensure it meets the key goal that sustainable, risk adjusted, long-term performance forms the basis of reward outcomes, and employee and shareholders' interests are aligned
- takes account of advice from the Group CEO, other members of management and, where relevant, independent external advisers
- oversees the preparation of this Remuneration Report.

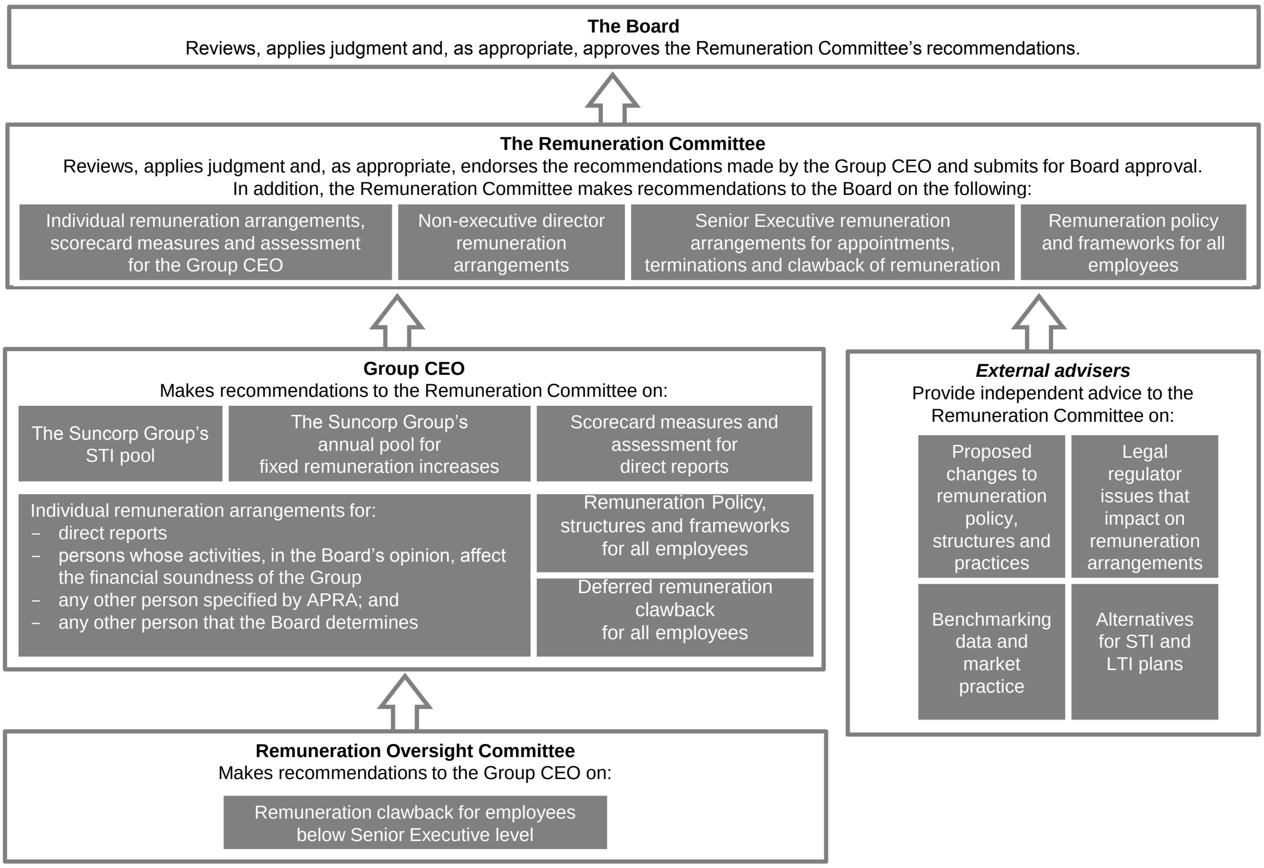
The Remuneration Committee consists of five independent non-executive directors (the Board Chairman is an ex-officio member), and is chaired by Ms Ilana Atlas, an independent non-executive director with extensive experience in human resource management and remuneration governance.

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

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

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

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



The Remuneration Policy:

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

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

Use of external remuneration advisers

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

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

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

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

The external advisers listed below provided information and assistance to management and the Remuneration Committee on a range of matters, to inform the Remuneration Committee's recommendations and decision making. As defined in the *Corporations Act 2001*, these advisers did not provide any remuneration recommendations and they were not 'remuneration consultants', during 2013.

Services relating to remuneration matters	External advisers providing this service to Suncorp Group in 2013
Benchmarking pay of the Group CEO and Senior Executives and fees for non-executive directors, against comparable roles at a range of relevant comparator groups	Ernst & Young Mercer Consulting (Australia) Godfrey Remuneration Group
Total shareholder return performance analysis for LTI awards	Mercer Consulting (Australia) Ernst & Young
Provision of information to determine the impact of legislative changes for the Group CEO	Ernst & Young
Attendance at and perspectives provided on matters discussed at Remuneration Committee meetings, and provision of market practice on some long-term incentive design features	PwC

2.2. Executive remuneration philosophy, strategy and policy

Remuneration strategy

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

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

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

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

2. Executive remuneration – audited (continued)

2.3. Remuneration framework

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

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

Independent external benchmarking is undertaken each year to ensure fixed remuneration, STI and LTI targets and the total combined reward opportunity, align with the competitive market, taking into consideration the skills, expertise and experience of executives.

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

	Component	Delivery	Performance and risk alignment	Strategic Priority
Fixed remuneration	**Fixed remuneration** Base remuneration (base salary, salary sacrificed benefits, and other benefits) plus superannuation	Base remuneration is paid in cash. Superannuation paid at a rate of 9% of base remuneration or the maximum contribution base[1], whichever is the lesser.	• Reward commensurate with the size and complexity of the role, individual responsibilities, individual performance, experience and skills. Aligned to market. • Increases reflect individual performance and contribution to the Suncorp Group taking into consideration market competitiveness. • Superannuation contributions paid according to statutory requirements.	Attract and retain highly engaged and enabled talent.
'At risk' remuneration	**Short-term incentives (including deferral)**	**STI cash:** For the Group CEO 50%, and for Senior Executives 65% of STI is typically paid in cash.[2] **STI deferral:** For the Group CEO 50%, and for Senior Executives 35%, of STI is deferred as cash for two years and is subject to potential clawback at the end of the deferral period.	• Rewards executives for their contribution to the Suncorp Group and business unit outcome, and for their individual contribution. • Deferral and potential clawback encourage a longer term focus. • The Board's determination of the Suncorp Group's STI pool includes consideration of risk management through a variety of financial and non-financial measures. • The remuneration governance framework allows the Board to exercise its judgment to reduce STI and deferred STI, if, in the Board's judgment, such an adjustment should occur (refer section 2.6).	Motivate superior performance and link remuneration to annual business performance. Deferral encourages longer term focus, risk management and alignment with shareholders' interests.
'At risk' remuneration	**Long-term incentives**	Performance rights that vest subject to performance hurdles being met and potential clawback[3].	• Rewards executives for their contribution to the creation of long-term shareholder value via exposure to equity in Suncorp Group Limited. • Focuses executives on achievement of Total Shareholder Return (**TSR**) through the use of an external, objective, relative TSR measure to determine outcomes. • The remuneration governance framework allows the Board to exercise its judgment to reduce LTI if, in the Board's judgment, such an adjustment should occur. • Executives cannot hedge equity instruments that are unvested or subject to restrictions.	Motivate superior performance and link remuneration to long-term business performance. Align remuneration with shareholders' interests.

1. Employer contributions of 9% of ordinary time earnings are paid up to the maximum contribution base, which for the financial year ending 30 June 2013 was $45,750 per quarter.
2. Paid in cash, unless the individual nominates to have all or part of their award paid into superannuation or Suncorp Group Limited shares (subject to relevant limits).
3. Clawback of LTI is applicable from the October 2010 Grant onwards.

Remuneration positioning policy and comparator groups

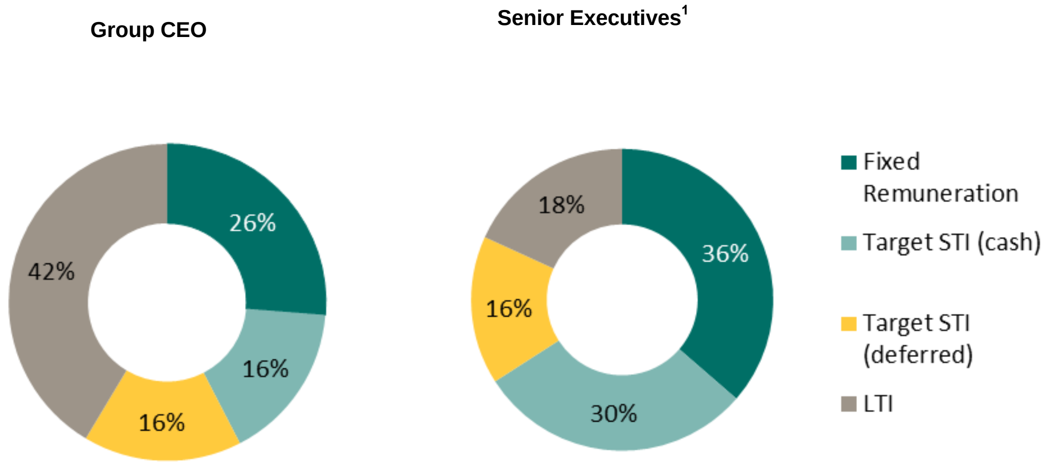
The total remuneration opportunity for executives is evaluated on an annual basis against relevant peer comparator groups including the S&P/ASX 100 Index, the S&P/ASX 50 Index and bespoke comparator groups.

Fixed remuneration is broadly targeted at the market median.

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

Remuneration mix

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



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

2.4. Aligning remuneration with risk management

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

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

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

Risk assessment is also included in the Suncorp Group scorecard through:

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

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

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

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

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

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

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

2. Executive remuneration – audited (continued)

2.4. Aligning remuneration with risk management (continued)

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

Hedging of unvested awards
Hedging of unvested equity awards is prohibited.

Minimum Shareholding Policy introduced from 2014
To further align the interests of Senior Executives and directors with those of shareholders, the Board has introduced a Minimum Shareholding Policy. This requires Senior Executives and directors to have a direct shareholding in SGL of a value at least equal to 100% of one year's pre-tax (gross) fixed remuneration or fees. Commencing October 2013, Senior Executives and directors are required to achieve 50% of the minimum holding by October 2015 and the full amount by October 2017. The value of the shares for the purposes of the policy is the market value of the underlying shares. Unvested shares within the LTI plan for executives do not qualify.

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

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

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

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

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

2.5. Fixed remuneration is reviewed in line with market practice

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

2.6. Short-term incentives – targets designed to stretch

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

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

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

STI funding pool
When recommending the size of the STI pool to the Board, the Remuneration Committee considers Suncorp Group performance against key financial and non-financial scorecard measures. Based on this recommendation, the Board determines the annual STI pool available for distribution to eligible employees by taking into account the quality of the Suncorp Group scorecard outcome with regard to factors such as long-term financial soundness and the current economic environment.

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

	Target STI	Max STI
Group CEO	125% of fixed remuneration	150% of fixed remuneration
Senior Executives	125%[1] of fixed remuneration	187.5% of fixed remuneration

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

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

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

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

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

Underlying profit after tax

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

In determining underlying profit after tax, a number of adjustments to NPAT are made as they are deemed to be outside normal operating activities and beyond executives' control, including:

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

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

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

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

Proportion of STI deferred and subject to clawback

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

- Group CEO 50%
- Senior Executives 35%.

Interest accrues during the deferral period and is payable on vesting. In the event of resignation, redundancy or retirement, the deferred incentive portion will remain 'on foot' after the termination date until the end of the original deferral period.

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

2. Executive remuneration – audited (continued)

2.6 Short-term incentives – targets designed to stretch (continued)

Proportion of STI deferred and subject to clawback (continued)

Deferred STI for the Group CEO

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

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

Deferred STI for Senior Executives

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

- significant losses arising as a consequence of poor quality business that has, in the opinion of the Board, been demonstrated to have been generated:
  - in breach of duly adopted policies and procedures
  - as a result of the exercise of bad judgment (either at the time the business was written, or when a deterioration should have been recognised and provided for)
  - in an environment where policies, procedures or protocols were weak or inadequate in each case having regard to the role and responsibility of the individual concerned
- financial misconduct (including embezzlement, fraud or theft)
- actions resulting in Suncorp Group or business unit financial misstatements
- significant legal, regulatory, and/or policy non-compliance
- significant issues that impact the Suncorp Group's standing with regulators to conduct business
- any individual act deemed to have been significantly harmful to the Suncorp Group and/or its reputation, employees or customers (e.g. ethical misconduct).

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

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

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

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

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

2.7. Long-term incentives (LTI) – based on performance hurdles

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

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

LTI grants, awarded in the form of performance rights, are provided through the EPSP. LTI grants will only vest when certain TSR performance hurdles relative to a pre-determined group of peer companies (the **Peer Comparator Group**) are met.

Performance rights explained

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

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

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

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

↓

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

↓

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

↓

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

↓

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

↓

Shares are held on trust during the vesting period.

↓

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

LTI performance hurdle – TSR
LTI performance determines the extent to which performance rights vest and is measured by ranking the Suncorp Group's TSR against the Peer Comparator Group.

TSR (expressed as a percentage):

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

The Peer Comparator Group for relative TSR performance assessment is the top 50 listed companies by market capitalisation in the S&P/ASX100 (after excluding property trusts and mining companies). Following its annual review of the Remuneration Policy, the Remuneration Committee considers that the chosen comparator group remains appropriate.

The relative TSR performance measure is chosen because it:

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

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

TSR externally monitored
TSR performance is monitored by an independent external party on a quarterly basis, for all unvested grants. At final vesting, two independent external parties validate TSR performance as shown in section 2.1.

2. Executive remuneration – audited (continued)

2.7 Long-term incentives (LTI) – based on performance hurdles (continued)

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

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

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

Relative TSR performance outcome	Percentage of LTI award that will vest
Below the 50th percentile (below median performance)	0%
At the 50th percentile (median performance)	50%
Between the 50th and 75th percentiles	50% plus 2% for each full 1% increase in the Company's ranking against the Peer Comparator Group
At or above the 75th percentile	100%

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

LTI has a three-year performance period
The performance period begins on the date the award is made and extends for three years.

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

The LTI award the Group CEO received on 1 October 2009 of 900,000 performance rights (the **Initial Grant**) represented his maximum LTI entitlement for the 2010, 2011 and 2012 financial years. The performance rights vest in three equal tranches, subject to the performance conditions outlined above, at 300,000 shares per tranche.

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

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

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

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

The Board, on the advice of the Remuneration Committee, has endorsed an award of performance rights with a value of $4,000,000. This value takes into account the appropriate level of total remuneration, as assessed by reference to a number of factors, including the extent to which the total remuneration is market competitive. The performance rights will be granted following the 2013 Annual General Meeting (if shareholder approval is provided). The actual number of shares linked to the performance rights to be granted to the Group CEO will depend on the share price over the five trading days up to 1 September 2013. These performance rights will be subject to the performance hurdle and vesting schedule described earlier.

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

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

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

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

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

2.8. Executive remuneration outcomes for 2013

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

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

Suncorp Group performance and STI 2013 outcomes
In association with the principle of 'aligning sustainable performance with reward', stretch targets for the Group CEO and Senior Executives are based on the expectation of delivering continual improvements in relation to external and internal benchmark indicators. Performance outcomes are measured based on a challenging, robust assessment of achievements against stretch targets.

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

STI performance outcomes for the Group CEO in 2013

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

The actual STI outcome for 2013 for the Group CEO is represented in the table below.

		ACTUAL STI AWARDED [1] $000	TARGET STI [2] $000	STI AWARD AS % OF TARGET STI	MAX STI [3] $000	STI AWARD AS % OF MAXIMUM STI	% OF MAXIMUM STI AWARD FORFEITED	AMOUNT DEFERRED $000
Executive director								
Group CEO	Patrick Snowball	3,500	3,188	110	3,825	92	8	1,750

1. The value of STI awarded for 2013 represented is before any deferral. The STI was awarded on 25 July 2013.
2. Target STI is set at 125% of fixed remuneration.
3. Maximum STI is set at 150% of fixed remuneration.

2. Executive remuneration – audited (continued)

2.8. Executive remuneration outcomes for 2013 (continued)

STI performance outcomes for Senior Executives in 2013

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

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

Actual STI outcomes for 2013 for Senior Executives are represented in the table below.

		ACTUAL STI AWARDED[1] $000	TARGET STI[2] $000	STI AWARD AS % OF TARGET STI	MAX STI[3] $000	STI AWARD AS % OF MAXIMUM STI	% OF MAXIMUM STI AWARD FORFEITED	AMOUNT DEFERRED $000
Senior Executives								
CEO Commercial Insurance	Anthony Day	1,070	938	114	1,406	76	24	375
CEO Vero New Zealand	Gary Dransfield	860	781	110	1,172	73	27	301
CEO Suncorp Bank	David Foster	1,400	963	145	1,444	97	3	490
Group Chief Risk Officer	Clayton Herbert	815	750	109	1,125	72	28	285
Group Executive Group General Counsel and Company Secretary	Anna Lenahan[4]	57	52	109	78	72	28	20
CEO Personal Insurance	Mark Milliner	1,120	1,009	111	1,513	74	26	392
Group Chief Financial Officer	John Nesbitt	1,250	1,125	111	1,688	74	26	438
Group Executive Human Resources	Amanda Revis	830	750	111	1,125	74	26	291
CEO Suncorp Business Services	Jeff Smith	1,180	1,079	109	1,463	81	19	413
CEO Suncorp Life	Geoff Summerhayes	950	900	106	1,350	70	30	333

1. The value of STI awarded for 2013 represented is before any deferral. The STI was awarded on 25 July 2013.
2. Target STI is set at 125% of fixed remuneration for all Senior Executives excluding the CEO Suncorp Business Services who has a target STI contractually set at 138.3%.
3. Maximum STI for Senior Executives is set at 187.5% of fixed remuneration.
4. Ms Lenahan, Group Executive Group General Counsel and Company Secretary, was appointed a Senior Executive effective 1 June 2013. STI details reflect Ms Lenahan's remuneration as a KMP since 1 June 2013.

Suncorp Group performance and LTI 2013 outcomes

Suncorp Group performance

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

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

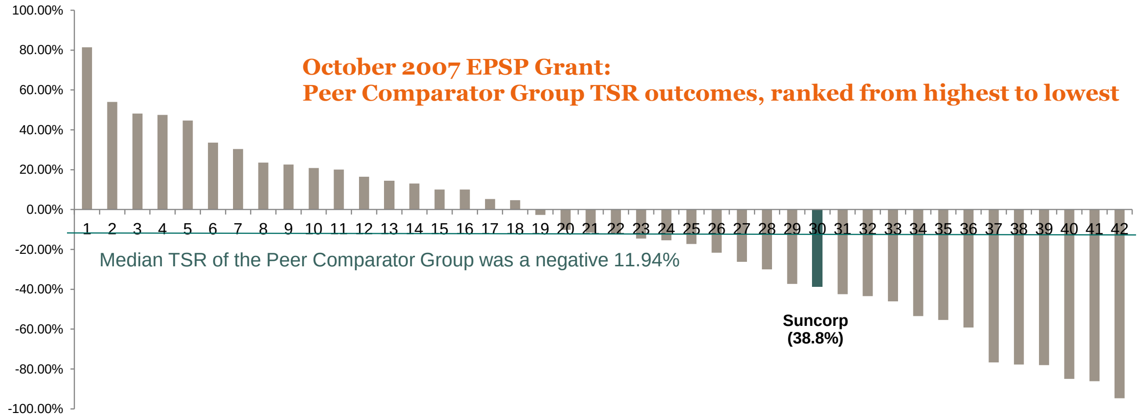
1. The Suncorp Group completed a restructure on 7 January 2011 (implementation of the NOHC). Amounts prior to this restructure relate to Suncorp-Metway Limited, the ultimate parent company prior to the restructure. Note that the profit figure in the table is **not** the same as the profit calculation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

2. Closing share price at 30 June.

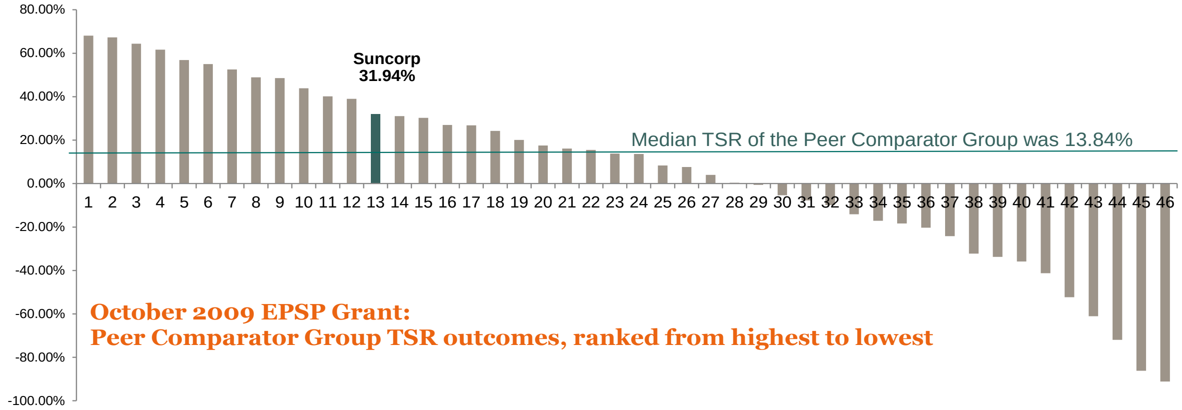
LTI performance outcomes – current year outcomes

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

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



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



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

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

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

1. Mr Snowball's 2009 Grant was made in three tranches. Tranche 1 had an initial three-year period to 30 September 2012. Tranches 2 and 3 were not due to vest in the 2013 financial year. See section 2.7 for further details.
2. Mr Nesbitt's 3 May 2010 Grant was a one-off offer made on appointment, to recognise forfeited LTI with his previous employer.

2. Executive remuneration – audited (continued)

2.8 Executive remuneration outcomes for 2013 (continued)

Suncorp Group performance and LTI 2013 outcomes (continued)

Number and value of performance rights granted, vested and forfeited under the EPSP

Information with respect to the movement of performance rights during 2013 and of current LTI grants held by the Group CEO and Senior Executives as at 30 June 2013 are outlined in the table below.

	PERFORMANCE RIGHTS GRANTED			FAIR VALUE YET TO VEST		MARKET VALUE				
	NUMBER OF ORDINARY SHARES	GRANT DATE	FINANCIAL YEAR IN WHICH GRANT MAY FIRST VEST	MIN [1] $	MAX [2] $	AT DATE OF GRANT [3] $	AS AT 30 JUNE 2013 [4] $	VESTED IN YEAR %	FORFEITED IN YEAR %	VESTED IN YEAR NUMBER OF ORDINARY SHARES
Executive director										
Patrick Snowball	300,000	1 October 2009	30 June 2013	-	-	-	-	96%	4%	288,000
	300,000	1 October 2009	30 June 2014	-	1,968,000	2,646,000	3,576,000	-	-	-
	300,000	1 October 2009	30 June 2015	-	2,025,000	2,646,000	3,576,000	-	-	-
	446,752	25 October 2012	30 June 2016	-	2,863,680	4,315,624	5,325,284	-	-	-
Senior Executives										
Anthony Day	9,543	1 October 2007	30 June 2011 [5]	-	-	-	-	-	100%	-
	13,843	1 October 2008	30 June 2012 [5]	-	59,802	133,031	165,009	-	-	-
	17,092	1 October 2009	30 June 2013	-	-	-	-	96%	4%	16,408
	71,585	1 October 2010	30 June 2014	-	380,116	627,800	853,293	-	-	-
	47,161	1 October 2011	30 June 2015	-	248,538	376,345	562,159	-	-	-
	40,507	1 October 2012	30 June 2016	-	240,207	372,664	482,843	-	-	-
Gary Dransfield	20,136	1 October 2009	30 June 2013	-	-	-	-	96%	4%	19,330
	18,942	1 October 2010	30 June 2014	-	100,582	166,121	225,789	-	-	-
	31,441	1 October 2011	30 June 2015	-	165,694	250,899	374,777	-	-	-
	29,705	1 October 2012	30 June 2016	-	176,151	273,286	354,084	-	-	-
David Foster	32,740	1 October 2007	30 June 2011 [5]	-	-	-	-	-	100%	-
	64,272	1 October 2008	30 June 2012 [5]	-	277,655	617,654	766,122	-	-	-
	81,949	1 October 2009	30 June 2013	-	-	-	-	96%	4%	78,671
	77,092	1 October 2010	30 June 2014	-	409,359	676,097	918,937	-	-	-
	47,161	1 October 2011	30 June 2015	-	248,538	376,345	562,159	-	-	-
	41,587	1 October 2012	30 June 2016	-	246,611	382,600	495,717	-	-	-
Clayton Herbert	11,081	1 October 2007	30 June 2011 [5]	-	-	-	-	-	100%	-
	15,820	1 October 2008	30 June 2012 [5]	-	68,342	152,030	188,574	-	-	-
	46,828	1 October 2009	30 June 2013	-	-	-	-	96%	4%	44,954
	19,823	1 October 2010	30 June 2014	-	105,260	173,848	236,290	-	-	-
	11,318	1 October 2011	30 June 2015	-	59,646	90,318	134,911	-	-	-
	32,405	1 October 2012	30 June 2016	-	192,162	298,126	386,268	-	-	-
Anna Lenahan	11,347	8 June 2011	30 June 2014	-	46,863	91,797	135,256	-	-	-
	11,318	1 October 2011	30 June 2015	-	59,646	90,318	134,911	-	-	-
	14,582	1 October 2012	30 June 2016	-	86,471	134,154	173,817	-	-	-
Mark Milliner	35,259	1 October 2007	30 June 2011 [5]	-	-	-	-	-	100%	-
	69,216	1 October 2008	30 June 2012 [5]	-	299,013	665,166	825,055	-	-	-
	81,949	1 October 2009	30 June 2013	-	-	-	-	96%	4%	78,671
	82,599	1 October 2010	30 June 2014	-	438,601	724,393	984,580	-	-	-
	49,047	1 October 2011	30 June 2015	-	258,478	391,395	584,640	-	-	-
	43,585	1 October 2012	30 June 2016	-	258,459	400,982	519,533	-	-	-
John Nesbitt	313,016	3 May 2010	30 June 2013	-	-	-	-	100%	-	313,016
	88,105	1 October 2010	30 June 2014	-	467,838	772,681	1,050,212	-	-	-
	52,317	1 October 2011	30 June 2015	-	275,711	417,490	623,619	-	-	-
	48,608	1 October 2012	30 June 2016	-	288,245	447,194	579,407	-	-	-
Amanda Revis	58,920	1 October 2010	30 June 2014	-	312,865	516,728	702,326	-	-	-
	33,641	1 October 2011	30 June 2015	-	177,288	268,455	401,001	-	-	-
	32,405	1 October 2012	30 June 2016	-	192,162	298,126	386,268	-	-	-
Jeff Smith	37,777	1 October 2007	30 June 2011 [5]	-	-	-	-	-	100%	-
	74,160	1 October 2008	30 June 2012 [5]	-	320,371	712,678	883,987	-	-	-
	87,803	1 October 2009	30 June 2013	-	-	-	-	96%	4%	84,290
	82,599	1 October 2010	30 June 2014	-	438,601	724,393	984,580	-	-	-
	49,047	1 October 2011	30 June 2015	-	258,478	391,395	584,640	-	-	-
	42,127	1 October 2012	30 June 2016	-	249,813	387,568	502,154	-	-	-
Geoff Summerhayes	61,800	1 October 2008	30 June 2012 [5]	-	266,976	593,898	736,656	-	-	-
	73,169	1 October 2009	30 June 2013	-	-	-	-	96%	4%	70,242
	68,832	1 October 2010	30 June 2014	-	365,498	603,657	820,477	-	-	-
	43,262	1 October 2011	30 June 2015	-	227,991	345,231	515,683	-	-	-
	38,886	1 October 2012	30 June 2016	-	230,594	357,751	463,521	-	-	-

1. The minimum value of shares yet to vest is nil since the performance criteria or service condition may not be met and consequently the shares may not vest.
2. For equity-settled performance rights, the maximum value yet to vest is determined as the fair value at grant date, assuming all performance criteria are met. For cash-settled performance rights, the maximum value of shares yet to vest is determined as the fair value at 30 June 2013, assuming all performance criteria are met.
3. Market value at date of grant is calculated by the number of shares granted multiplied by the closing share price as traded on the Australian Securities Exchange (**ASX**) on the date of grant. Where the date of grant falls on an ASX non-trading day, the closing share price of the preceding trading day is used.
4. Market value as at 30 June 2013 is calculated by the number of shares granted multiplied by the closing share price as traded on ASX on 28 June 2013, being the last trading day prior to 30 June 2013.
5. Executives elected to extend the performance period by a further two years.

2.9. Executive remuneration – statutory disclosures

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

The following table includes LTI amounts during 2013 and 2012 which are 'share-based payment' amounts that reflect the amount required to be expensed in accordance with the AASBs.

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

Executive remuneration for the years ended 30 June 2013 and 30 June 2012

	SHORT-TERM BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS					
	SALARY AND FEES $000	CASH INCENTIVES $000	NON-MONETARY BENEFITS [1] $000	OTHER [2] $000	SUPER-ANNUATION BENEFITS $000	DEFERRED INCENTIVES [3] $000	OTHER [4] $000	TERMINATION BENEFITS[5] $000	SHARE-BASED PAYMENTS [6] $000	TOTAL REMUNERATION $000	PERFORMANCE RELATED %
Executive director											
Patrick Snowball											
2013	**2,550**	**1,750**	**67**	**(13)**	**-**	**1,879**	**-**	**-**	**1,771**	**8,004**	**67.5**
2012	2,500	1,475	84	(13)	-	2,688	-	-	1,531	8,265	68.9
Senior Executives											
Anthony Day											
2013	**734**	**696**	**6**	**(6)**	**16**	**399**	**65**	**-**	**286**	**2,196**	**62.9**
2012	737	549	5	20	16	307	-	-	258	1,892	58.9
Gary Dransfield											
2013	**608**	**559**	**5**	**26**	**16**	**313**	**-**	**-**	**143**	**1,670**	**60.8**
2012	520	390	5	11	16	213	-	-	118	1,273	56.6
David Foster											
2013	**754**	**910**	**3**	**-**	**16**	**516**	**12**	**-**	**348**	**2,559**	**69.3**
2012	752	553	3	(19)	16	310	15	-	491	2,121	63.8
Clayton Herbert (appointed 1 July 2012)											
2013	**584**	**530**	**6**	**17**	**16**	**293**	**39**	**-**	**136**	**1,621**	**59.2**
Anna Lenahan (appointed 1 June 2013)											
2013	**37**	**37**	**1**	**4**	**1**	**20**	**-**	**-**	**6**	**106**	**59.4**
Mark Milliner											
2013	**791**	**728**	**5**	**(20)**	**16**	**420**	**13**	**-**	**366**	**2,319**	**65.3**
2012	787	575	5	38	16	324	20	-	512	2,277	62.0
John Nesbitt											
2013	**884**	**813**	**9**	**17**	**16**	**468**	**-**	**-**	**836**	**3,043**	**69.6**
2012	869	637	8	(28)	16	358	-	-	845	2,705	68.0
Amanda Revis											
2013	**584**	**540**	**5**	**9**	**16**	**311**	**-**	**-**	**211**	**1,676**	**63.4**
2012	569	429	5	(20)	16	241	-	-	149	1,389	59.0
Jeff Smith											
2013	**764**	**767**	**6**	**6**	**16**	**444**	**13**	**-**	**369**	**2,385**	**66.2**
2012	768	624	6	25	16	352	71	-	533	2,395	63.0
Geoff Summerhayes											
2013	**704**	**618**	**10**	**14**	**16**	**356**	**60**	**-**	**294**	**2,072**	**61.2**
2012	698	527	9	(8)	16	295	-	-	356	1,893	62.2

1. Non-monetary benefits represents costs met by the Suncorp Group for airfares and insurances.
2. Other short-term benefits represent annual leave accrued during the year.
3. The amount of deferred incentives awarded to the Group CEO and Senior Executives are recognised in full as there are no performance or service conditions required.
4. Other long-term benefits represent long service leave accrued during the year.
5. Termination benefits are paid in accordance with contractual commitments. Refer to Section 2.10.
6. Equity-settled performance rights issued as LTI are expensed to the profit or loss based on their fair value at grant date over the period from grant date to vesting date. For cash-settled performance rights, the fair value is remeasured at year end with changes in fair value recognised as an expense. The fair value is assessed using a Monte-Carlo model and reflects the fact that an individual's entitlement to the shares is dependent on relative TSR performance. The assumptions underpinning these valuations are set out in note 12 to the financial statements

2. Executive remuneration – audited (continued)

2.10. Service Contracts – summary

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

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

A summary is shown in the table below:

Service agreement	Contract duration	Notice period/ termination payment	LTI	STI	Treatment of STI on termination	Treatment of LTI on termination
Group CEO, Mr Patrick Snowball	Unlimited duration	**Employer-initiated termination** Incapacity: 9 months Poor performance: 3 months Misconduct: None In all other cases: 12 months' notice (or payment in lieu) **Employee-initiated termination** 6 months	Proposed October 2013 award of performance rights equivalent to $4,000,000 maximum value, subject to performance against hurdle over a three-year vesting period. Refer section 2.7	• Target: 125% of fixed remuneration • Maximum: 150% of fixed remuneration • Deferral: 50% of total STI awarded Included in contractual terms is a specific clause in relation to clawback of deferred STI.	**Employer-initiated and employee-initiated termination** Board discretion: • cash STI may be received, subject to performance • deferred STI award will (generally) vest after the termination date at the end of the original deferral period and will be subject to potential clawback at such time, unless the Board exercises its discretion otherwise. For misconduct or poor performance, deferred STI award is forfeited.	**Employer-initiated termination** For misconduct or poor performance, all unvested awards are forfeited. For other cases, the Board has the discretion to determine that: • the number of any unvested LTI performance rights under the 2012 Grant will be pro-rated based on the number of months the Group CEO worked in the performance period, as a proportion of the 36 months making up the performance period; and • the Initial Grant and the pro-rated number of rights under the 2012 Grant will continue until the relevant vesting dates, subject to the performance measures. **Employee-initiated termination** Unvested awards will be forfeited if Mr Snowball terminates the agreement on six months' notice before 31 August 2014.
Senior Executives	Unlimited duration	**Employer-initiated termination** Redundancy [1]: 12 months (including notice) Misconduct: none All other cases: 12 months	Maximum face value grant: 50% of annual fixed remuneration	• Target: 125% of fixed remuneration[2] • Maximum: 187.5% of fixed remuneration • Deferral: 35% of total	Misconduct: No cash STI will be awarded and all unvested deferral is forfeited. Resignation or redundancy: Board has discretion to determine:	**Qualifying reason**[3] The Board has the discretion to determine that any unvested LTI performance rights will continue until the relevant vesting dates and remain subject to the performance measures, except that any allocation made will be pro-rated to reflect the proportion of the

		Employee-initiated termination: 3 months		STI awarded	• any cash STI award may be received, subject to performance • any deferred STI award will generally vest after the termination date at the end of the original deferral period and will be subject to potential clawback at such time, unless the Board exercises its discretion otherwise. All other cases: Board discretion	performance period actually worked, unless otherwise determined by the Board. **Non-qualifying reason** All unvested awards are forfeited.

1. Exception: Mr Geoff Summerhayes, CEO Suncorp Life: greater of 12 months or total benefit under the redundancy policy (maximum 75 weeks including notice)
2. Exception: Mr Jeff Smith CEO, Suncorp Business Services: STI target contractually set at 138.3% of fixed remuneration
3. Qualifying reasons include death, total and permanent disablement, retirement, redundancy as a result of a Suncorp Group restructure, or any other reason as determined by the Board

3. Non-executive director arrangements – audited

3.1. Remuneration structure

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

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

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

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

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

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

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

1. Fees exclude SGC.
2. An additional fee of $50,000 p.a. is payable for the Chairmanship of the New Zealand companies and joint venture. Mr Kulk is the Chairman of AAI New Zealand and Mr Ricketts is the Chairman of Vero Insurance New Zealand Limited.
3. Includes base fee.
4. Total fees represent annual values based on membership at 30 June 2013.
5. Mr Switkowski does not receive fees for attending Audit, Risk and Remuneration Committee meetings as an ex-officio member.

Commencing October 2013, the Suncorp Group's Minimum Shareholding Policy (refer to section 2.4) requires non-executive directors to hold a minimum number of ordinary shares in SGL with a value at least equal to 100% of one year's pre-tax (gross) base fees.

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

3.2. Non-Executive Directors' Share Plan

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

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

3.3. Non-executive directors' remuneration disclosures

Details of non-executive directors' remuneration for 2013 and 2012 are set out in the table below.

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

1. The non-executive directors receive a non-monetary benefit in relation to a proportion of the directors' and officers' insurance policy premium pro-rated for time in office. The amounts for both the current and prior year are below $1,000 per individual.
2. None of the remuneration paid to non-executive directors is performance-based. Refer to section 3.1.
3. From 25 August 2012 onwards, Mr Michael Cameron's fees (exclusive of superannuation) have been paid directly to GPT Management Holdings Limited.

Directors' Report

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

Dr Zygmunt E Switkowski
Chairman

Patrick J R Snowball
Managing Director and Group CEO

21 August 2013

KPMG

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

To: the directors of Suncorp-Metway Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

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

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

KPMG

KPMG

Paul M Reid
Partner

Brisbane

21 August 2013

Suncorp-Metway Limited and subsidiaries

ABN 66 010 831 722

Consolidated financial report

for the financial year ended 30 June 2013

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Statements of comprehensive income

for the year ended 30 June 2013

	Note	Consolidated		Company	
		2013	2012	2013	2012
		$m	$m	$m	$m
Interest income	6	3,421	4,025	3,384	3,971
Interest expense	6	(2,435)	(3,097)	(2,256)	(2,887)
Net interest income		986	928	1,128	1,084
Other operating income	6	60	140	493	439
Total net operating income		1,046	1,068	1,621	1,523
Operating expenses	7	(628)	(603)	(1,216)	(1,069)
Losses on loans and advances	16.2, 16.3	(902)	(432)	(904)	(420)
Profit before income tax		(484)	33	(499)	34
Income tax (expense) benefit	8.1	135	(11)	149	5
Profit for the financial year		(349)	22	(350)	39
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Net change in fair value of cash flow hedges	26	72	(64)	77	(69)
Net change in fair value of available-for-sale financial assets	26	-	(60)	2	(60)
Income tax benefit (expense) on other comprehensive income	8.4	(23)	38	(26)	40
Other comprehensive income net of income tax		49	(86)	53	(89)
Total comprehensive income for the financial year		(300)	(64)	(297)	(50)
Profit for the financial year attributable to:					
Owners of the Company		(349)	22	(350)	39
Profit for the financial year		(349)	22	(350)	39
Total comprehensive income for the financial year attributable to:					
Owners of the Company		(300)	(64)	(297)	(50)
Total comprehensive income for the financial year		(300)	(64)	(297)	(50)

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

Statements of financial position

as at 30 June 2013

	Note	Consolidated		Company	
		2013	2012	2013	2012
		$m	$m	$m	$m
Assets					
Cash and cash equivalents	10	905	549	904	549
Receivables due from other banks	11	1,460	2,044	1,460	2,044
Trading securities	12	3,462	4,787	3,462	4,787
Derivatives	13	667	424	667	424
Investment securities	14	6,640	6,308	6,671	6,334
Loans, advances and other receivables	15	48,365	47,521	47,949	47,118
Due from subsidiaries		-	-	328	416
Other assets	17	273	350	223	289
Deferred tax assets	8.3	141	241	141	233
Goodwill and intangible assets		26	26	-	-
Total assets		61,939	62,250	61,805	62,194
Liabilities					
Payables due to other banks		213	64	213	64
Deposits and short-term borrowings	18	43,861	41,521	43,920	41,572
Derivatives	13	984	2,369	929	2,225
Payables and other liabilities	19	755	691	738	671
Due to subsidiaries		-	-	4,716	3,928
Securitisation liabilities	20	4,802	3,839	-	-
Debt issues	21	7,313	9,598	7,313	9,604
Total liabilities excluding loan capital		57,928	58,082	57,829	58,064
Loan capital					
Subordinated notes	22	840	666	840	666
Preference shares	23	30	762	30	762
Total loan capital		870	1,428	870	1,428
Total liabilities		58,798	59,510	58,699	59,492
Net assets		3,141	2,740	3,106	2,702
Equity					
Share capital	24	2,452	2,189	2,452	2,189
Capital notes	25	450	-	450	-
Reserves	26	(306)	(339)	64	27
Retained profits		545	890	140	486
Total equity attributable to owners of the Company		3,141	2,740	3,106	2,702
Total equity		3,141	2,740	3,106	2,702

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

Statements of changes in equity

for the year ended 30 June 2013

Consolidated	Share capital	Capital notes	Reserves	Retained profits	Total	Non-controlling interests	Total equity
	$m	$m	$m	$m	$m	$m	$m
Balance as at 30 June 2011	1,789	-	(243)	1,359	2,905	-	2,905
Profit for the financial year	-	-	-	22	22	-	22
Other comprehensive income	-	-	(86)	-	(86)	-	(86)
Total comprehensive income	-	-	(86)	22	(64)	-	(64)
Transactions with owners, recorded directly in equity							
Issuances	400	-	-	-	400	-	400
Dividends paid	-	-	-	(501)	(501)	-	(501)
Transfers	-	-	(10)	10	-	-	-
Balance as at 30 June 2012	2,189	-	(339)	890	2,740	-	2,740
Profit for the financial year	-	-	-	(349)	(349)	-	(349)
Other comprehensive income	-	-	49	-	49	-	49
Total comprehensive income	-	-	49	(349)	(300)	-	(300)
Transactions with owners, recorded directly in equity							
Issuances	998	450	-	-	1,448	-	1,448
Share buyback	(735)	-	-	-	(735)	-	(735)
Dividends paid	-	-	-	(12)	(12)	-	(12)
Transfers	-	-	(16)	16	-	-	-
Balance as at 30 June 2013	2,452	450	(306)	545	3,141	-	3,141

Company	Share capital	Capital notes	Reserves	Retained profits	Total	Non-controlling interests	Total equity
Balance as at 30 June 2011	1,789	-	126	938	2,853	-	2,853
Profit for the financial year	-	-	-	39	39	-	39
Other comprehensive income	-	-	(89)	-	(89)	-	(89)
Total comprehensive income	-	-	(89)	39	(50)	-	(50)
Transactions with owners, recorded directly in equity							
Issuances	400	-	-	-	400	-	400
Dividends paid	-	-	-	(501)	(501)	-	(501)
Transfers	-	-	(10)	10	-	-	-
Balance as at 30 June 2012	2,189	-	27	486	2,702	-	2,702
Profit for the financial year	-	-	-	(350)	(350)	-	(350)
Other comprehensive income	-	-	53	-	53	-	53
Total comprehensive income	-	-	53	(350)	(297)	-	(297)
Transactions with owners, recorded directly in equity							
Issuances	998	450	-	-	1,448	-	1,448
Share buyback	(735)	-	-	-	(735)	-	(735)
Dividends paid	-	-	-	(12)	(12)	-	(12)
Transfers	-	-	(16)	16	-	-	-
Balance as at 30 June 2013	2,452	450	64	140	3,106	-	3,106

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

Statements of cash flows

for the year ended 30 June 2013

	Note	Consolidated		Company	
		2013	2012	2013	2012
		$m	$m	$m	$m
Cash flows from operating activities					
Interest received		3,429	4,037	3,380	3,996
Interest paid		(2,460)	(3,081)	(2,281)	(2,927)
Other operating income received		174	182	607	476
Operating expenses paid		(598)	(1,024)	(1,201)	(1,471)
Income tax received (paid)		218	(81)	247	(25)
Net (increase) decrease in operating assets and liabilities					
Trading securities		1,340	217	1,340	217
Loans, advances and other receivables		(1,755)	(1,165)	(1,744)	(1,352)
Deposits and short-term borrowings		2,365	2,261	3,249	2,751
Net cash (used in) from operating activities	33.1	2,713	1,346	3,597	1,665
Cash flows from investing activities					
Proceeds from disposal of property, plant and equipment		-	107	-	-
Proceeds (payments) for sales (purchase) of investment securities		(337)	(157)	(338)	(608)
Net cash (used in) from investing activities		(337)	(50)	(338)	(608)
Cash flows from financing activities					
Net increase (decrease) in borrowings		(2,877)	(1,233)	(3,761)	(983)
Payment on call of subordinated notes		(406)	(174)	(406)	(174)
Proceeds from issue of subordinated notes		670	-	670	-
Payments on maturity of subordinated notes		(104)	-	(104)	-
Dividends paid on ordinary shares		-	(101)	-	(101)
Dividends paid on capital notes		(12)	-	(12)	-
Proceeds from issue of shares		263	-	263	-
Payments from issue of internal capital notes		450	-	450	-
Payments for preference share redemption		(735)	(72)	(735)	(72)
Payment of transaction costs		(2)	2	(2)	3
Net cash (used in) from financing activities		(2,753)	(1,578)	(3,637)	(1,327)
Net (decrease) increase in cash and cash equivalents		(377)	(282)	(378)	(270)
Cash and cash equivalents at the beginning of the financial year		2,529	2,811	2,529	2,799
Cash and cash equivalents at the end of the financial year	33.2	2,152	2,529	2,151	2,529

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

1. Reporting entity

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

Suncorp-Metway Limited is a public company domiciled in Australia. Its registered office is at Level 18, 36 Wickham Terrace, Brisbane, QLD, 4000.

The Company's parent entity is SBGH Limited, with Suncorp Group Limited (**SGL**) being the ultimate parent entity. **Suncorp Group** is defined to be Suncorp Group Limited and its subsidiaries.

The Company and the Group are for-profit entities.

2. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis unless the application of fair value measurements is required by relevant accounting standards.

Except as otherwise stated in note 3, all accounting policies have been applied consistently to all periods presented in the consolidated financial statements and have been applied consistently by all Group entities.

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

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

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

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

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

Cash flow statement comparatives have also been restated with the net change in loans, advances and other receivables increasing by $384 million, and the net change in deposits and short term borrowings decreasing by $20 million, for both consolidated and Company.

The notes to the consolidated financial statements have also been restated, where appropriate, to align with the revised classifications. There is no change to the statements of comprehensive income.

	Consolidated			Company		
	Previously reported $m	Change $m	Currently reported $m	Previously reported $m	Change $m	Currently reported $m
2012						
Assets						
Receivables due from other banks	154	1,890	2,044	154	1,890	2,044
Loans, advances and other receivables	49,411	(1,890)	47,521	49,008	(1,890)	47,118
Liabilities						
Payables due to other banks	41	23	64	41	23	64
Deposits and short-term borrowings	41,544	(23)	41,521	41,595	(23)	41,572

2.1. Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (**AASBs**) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*. The financial report complies with the International Financial Reporting Standards (**IFRS**) and interpretations adopted by the International Accounting Standards Board (**IASB**).

2.2. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements and the application of policies. 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 as follows:

- Specific and collective provisions for impairment (refer note 16)
- Valuation of financial instruments and fair value hierarchy disclosures (refer note 28)

3. 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 except for the following change in accounting policy:

From 1 July 2012, the Group has applied amendments to AASB 101 *Presentation of financial statements* outlined in AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of items of other comprehensive income*. The changes in accounting policy only related to disclosures and have had no impact on consolidated earnings. The changes have been applied retrospectively, and require the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those which will never be reclassified to profit or loss. The changes are included in the consolidated statement of comprehensive income.

3.1. Significant accounting policies applicable to all Group entities

The following significant accounting policies are applicable to all Group entities.

3.1.1. 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.

(a) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of during the financial year. When an operation is classified as discontinued, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

(b) Subsidiaries

Subsidiaries are entities controlled by the Group including companies, managed funds and trusts. Subsidiaries are consolidated from the date when control commences until the date when control ceases. Control is the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(c) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

(d) Associates and joint venture entities (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint venture entities are those entities over which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

These investments are accounted for using the equity method. Interests are initially recognised at cost and adjusted to recognise the Group's share of the profit or loss after the date of acquisition. For investments in associates, if the Group's share of losses exceeds its investment, the carrying amount is reduced to nil and recognition of further losses is discontinued.

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

(e) Jointly-controlled assets

Jointly-controlled assets are those assets in which the Group has joint control. The Group's interests are accounted for by including the Group's share of the jointly-controlled assets (classified according to the nature of the assets rather than as an investment), liabilities and expenses incurred, and income from the sale or use of jointly-controlled assets.

3.1.1. Basis of consolidation (continued)

(f) Joint venture operations

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

(g) Special purpose entities

Special purpose entities (SPEs) are entities created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The Group has established a number of SPEs for trading purposes. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

Securitisation

The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold as securities to the Apollo Series Trusts (Trusts).

Group

Securitised loans are recognised in the Group's financial statements as the Group is entitled to any residual income of the program after all payments due to investors and associated costs of the program have been met.

The Trusts fund their purchase of the loans by issuing floating-rate pass-through debt securities. These are represented as securitisation liabilities of the Group. However the Group does not stand behind the capital value or the performance of the securities or the assets of the Trusts. The Group does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the Trusts. The Group is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support.

Company

The Company receives the residual income of the Trusts and interest rate risk from the Trusts is transferred back to the Company by way of interest rate and basis swaps. Accordingly, the original sale of the mortgages from the Company to the Trusts fails the de-recognition criteria set out in AASB 139. The Company continues to reflect the securitised loans in their entirety and also recognises a financial liability to the Trusts. The Trusts then recognise a financial asset due from the Company and a financial liability to the holders of the debt securities issued by the Trusts. The interest payable on the intercompany financial asset/liability represents the return on an imputed loan between the Company and the Trusts and is based on the interest income under the mortgages, the fees payable by the Trusts and the net interest income/expense not separately recognised under interest rate and basis swaps transacted between the Company and the Trusts.

All transactions between the Trusts and the Company are eliminated on consolidation.

Covered Bonds

The Group conducts a covered bond programme whereby the Company issues securities guaranteed by the Covered Bond Guarantor and secured by a cover pool of assets sold to the Suncorp Covered Bond Trust (the Trust).

In the event of default by the Company, the covered bond holders have claim over both the cover pool and the Company.

The Company receives the residual income of the Trust and interest rate risk from the Trust is transferred back to the Company by way of the total return swap. Accordingly, the mortgages which comprise the cover pool continue to be recognised in the financial statements of both the Company and the Group as the transfer of loans from the Company to the Trust fails the de-recognition criteria set out in AASB 139.

The covered bonds are recognised as debt issues in the statement of financial position of both the Company and the Group.

All transactions between the Trust and the Company are eliminated in the Group's consolidated financial statements.

3.1.2. 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 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.

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

3.1.3. Foreign currency

Foreign currency transactions

Transactions denominated in foreign currencies are translated into the functional currency of the operation using the spot exchange rates at the date of the transaction. Foreign currency monetary assets and liabilities at balance date are translated into the functional currency using the spot rates of exchange current on that date. The resulting differences on monetary items are recognised as exchange gains or losses in the financial year in which the exchange rate differences arise. Foreign currency non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rates at the date of the transaction. Foreign currency non-monetary assets and liabilities that are stated at fair value are translated using exchange rates at the dates the fair value was determined. Where a non-monetary asset is classified as an available-for-sale financial asset, the gain or loss is recognised in other comprehensive income.

Where a foreign currency transaction is part of a hedge relationship, it is accounted for as above, subject to the hedge accounting rules set out in note 3.1.12.

3.1.4. Revenue and expense recognition

(a) Dividends and distribution income

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

(b) Fair value gains and losses

Fair value gains and losses from financial assets and liabilities at fair value through profit and loss are recognised as they occur.

(c) Interest income and expense

Interest income and expense are recognised for all interest-bearing instruments measured at amortised cost using the effective interest method. These instruments include loans, advances and other receivables, deposits and short-term borrowings and debt issues.

The effective interest rate method calculates the amortised cost of the financial asset or liability and allocates the interest income or expense over its expected life so as to achieve a constant yield. The calculation takes into account certain fees, transaction costs such as commissions paid to mortgage loan originators and discounts that are an integral part of the effective interest rate.

3.1.4. Revenue and expense recognition (continued)

(d) Banking fee and commission income

Fees and commission income and expense (e.g. lending fees) that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

Service fees that represent the recoupment of the costs of providing service, for example maintaining and administering existing facilities, are recognised on an accrual basis when the service is provided.

3.1.5. Share-based payments

The Suncorp Group operates several share-based payment transactions with its non-executive directors and employees which may be equity settled or equity settled with cash alternative (Suncorp Group'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 in the determination of the grant date fair value. On a cumulative basis, no expense is recognised for shares granted that do not vest due to a non-market vesting condition not being satisfied.

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

Equity-settled transactions with cash alternative (Suncorp Group'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.

3.1.6. Income tax

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

Current tax consists of the expected tax payable on the taxable income for the year, after any adjustments in respect of previous years, and based on the applicable tax law that has been enacted or substantially enacted by 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.

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.

3.1.6. Income tax (continued)

Tax consolidation

As at 30 June 2013, the Company is a wholly-owned entity in a tax-consolidated group, with Suncorp Group Limited as the head entity.

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

The 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 intra-group 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 respect of this component of the agreement as this outcome is considered remote.

3.1.7. Goods and services tax (GST)

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

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

3.1.8. Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at branches, cash on deposit, balances with the Reserve Bank of Australia (RBA), highly liquid short-term investments and money at short call.

Receivables and payables due from/to other banks are classified as cash equivalents for cash flow purposes. They are measured at face value or the gross value of the outstanding balance which is considered a reasonable approximation of fair value. Bank overdrafts are shown within financial liabilities unless there is a right of offset.

3.1.9. Receivables due from and payables due to other banks

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

3.1.10. Non-derivative financial assets

Upon initial recognition, financial assets of the Group are classified into one of the following categories:

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

These assets are classified as either held for trading or those that are designated as such upon initial recognition. Trading securities are government, bank and other debt securities that are acquired without the intention of being held to maturity. Derivatives that are not specifically designated as being part of an effective hedge relationship are classified as trading securities.

Assets are initially recognised with direct transaction costs such as brokerage and commission expensed through the profit or loss. Recognition date is at trade date, being the date on which the Group commits to purchase or sell the asset.

The assets are measured at fair value each reporting date based on the quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used. Movements in the fair value are taken immediately to the profit or loss. Interest income on Trading securities is recorded in Net Interest Income and the fair value movement on trading securities is recorded in net profits on derivative and other financial instruments.

3.1.10. Non-derivative financial assets (continued)

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. They are initially recognised on trade date at fair value plus any directly attributable transaction costs and are measured at amortised cost using the effective interest rate method at each reporting date. If the investments no longer qualify as held-to-maturity investments, any remaining held-to-maturity investments are reclassified as available-for-sale financial assets.

When reclassifying available-for-sale financial assets to held-to-maturity investments, the fair value carrying amount of the available-for-sale financial assets on the date of reclassification becomes the new amortised cost of the held-to-maturity investments. Any previous gain or loss on these investments recognised in other comprehensive income is amortised to profit or loss over the remaining life of the investments. Any difference between the new amortised cost and maturity amount is amortised over the remaining life of the investment using the effective interest method.

(c) Loans and other receivables

Loans and other receivables include all forms of lending and direct finance provided to Banking customers. They are initially recognised at fair value plus direct transaction costs. Recognition date is at settlement date being the date on which cash is advanced to the customers.

Loans and receivables are measured at each reporting date at amortised cost using the effective interest method less any impairment losses. Interest income is recorded in the profit or loss.

(d) Available-for-sale financial assets

Available-for-sale investments consist of debt and equity securities which are intended to be held for an indefinite period of time, but which may be sold in response to a need for liquidity or changes in interest rates or exchange rates. They are initially recognised at trade date at fair value plus direct transaction costs and are measured at fair value at each reporting date.

Fair value gains and losses, other than foreign exchange gains and losses on debt securities, are recognised directly into equity until impaired or derecognised, whereupon the cumulative gains and losses previously recognised in equity are reclassified to the profit or loss as a reclassification adjustment. Foreign exchange gains and losses on debt securities, interest income and dividend income are recognised in the profit or loss. The Group’s available-for-sale financial assets include investment securities.

(e) Derecognition of financial assets

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

(f) Repurchase agreements

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

3.1.11. Derivative financial instruments

The Group uses derivative financial instruments to hedge the Group's assets and liabilities or as part of the Group's trading and investment activities. Derivatives include foreign exchange contracts, forward rate agreements and interest rate and currency swaps.

All derivatives are initially recognised at fair value on trade date with ongoing measurement at fair value throughout the life of the contract. Fair values are determined from quoted market prices where available, or else by using discounted cash flow models, broker and dealer price quotations or option pricing models as appropriate.

Derivatives are classified and accounted for as held for trading financial assets at fair value through profit or loss (note 3.1.10 (a)) unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting (note 3.1.12).

3.1.11. Derivative financial instruments (continued)

Embedded derivatives

Where a derivative is embedded in another financial instrument, the economic characteristics and risks of the derivative are not closely related to those of the host contract and the host contract is not carried at fair value, the embedded derivative is separated from the host contract and carried at fair value through profit or loss. Otherwise, the derivative is accounted for on the same basis as the host contract.

3.1.12. 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%.

(a) Cash flow hedges

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

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

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

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

(b) Fair value hedges

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

- a recognised asset or liability;
- an unrecognised firm commitment; or
- an identified portion of such an asset, liability or firm commitment,

that is attributable to a particular risk and could affect profit and loss.

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

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

3.1.13. Assets and liabilities classified as held for sale

These are non-current assets and liabilities that are expected to be recovered primarily through sale rather than continuing use. Once classified, the assets and liabilities are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification and subsequent gains or losses on re-measurement are recognised in the profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3.1.14. Property, plant and equipment

(a) Recognition and initial measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment are derecognised upon disposal with the resulting gain or loss recognised and calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds.

(b) Depreciation

The depreciable value of the asset is depreciated over the asset's useful life. The straight-line method of depreciation is used with assets being depreciated from the date they become available for use.

Useful lives and depreciation methods are reviewed at each annual reporting period. Residual values, if significant, are reassessed annually.

3.1.15. Intangible assets

(a) Initial recognition and measurement

Intangible assets are recognised at cost less any accumulated amortisation or any accumulated impairment losses. Where an intangible asset is deemed to have an indefinite useful life, it is not amortised but tested for impairment at least on an annual basis.

Goodwill is recognised at cost from business combinations as described in note 3.1.2 and is subsequently measured at cost less accumulated impairment loss. Goodwill on equity-accounted investments is included in the carrying value of the investment.

Internally generated intangible assets

Internally generated intangible assets such as software are recorded at cost, which comprises all directly attributable costs necessary to purchase, create, produce, and prepare the asset to be capable of operating in the manner intended by management.

All other expenditure, including expenditure on software maintenance, research costs and brands is recognised as an expense as incurred.

(b) Amortisation

Amortisation is recognised on a straight line basis over the estimated useful lives of the finite intangible assets, calculated from the date the assets are available for use. The amortisation method and useful lives are reviewed annually. Intangible assets deemed to have an infinite useful life are not amortised but are tested for impairment at least annually.

3.1.16. Impairment

(a) Financial assets

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

Loans and receivables

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

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

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income.

3.1.16. Impairment (continued)

In relation to provision for impairment of Banking loans and advances, two categories of provisions are recognised: specific provisions and collective provisions. Specific impairment provisions are recognised for all loans where there is objective evidence that an individual loan is impaired. Specific impairment provisions are based on the carrying amount of the loan and the present value of expected future cash flows. A collective provision is established for loan portfolios which are not specifically provisioned. Collective provisions are held for potential credit losses which have been incurred but not yet specifically identified, and can be in the performing or non performing portfolios. For business banking exposures, a ratings based approach is applied using estimates of probability of default and loss given default, at a customer level. For portfolio managed exposures, the portfolios are split into pools with homogenous risk profiles and pool estimates of probability of default and loss given default are used to calculate the collective provision.

The difference between the Group’s collective provisions for impairment and the estimate of credit losses across the credit cycle based on guidance provided by APRA is recognised in the equity reserve for credit losses.

Available-for-sale financial assets

An impairment loss is recognised in respect of available-for-sale financial assets where there is evidence of a decrease in fair value below cost. Cumulative losses are transferred from the available-for-sale reserve in equity to the profit or loss. When subsequent events cause the amount of the impairment loss to decrease, a reversal of the impairment is recognised in profit or loss for debt securities if the decrease can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, and in equity for equity securities and other debt security recoveries.

(b) Non-financial assets

Non-financial assets are assessed for indicators of impairment at each reporting date. Indicators include both internal and external factors. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and other intangible assets with indefinite useful lives, the recoverable amount is estimated each year at 30 June.

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

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

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

Impairment losses, if any, recognised in respect of cash-generating units 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.

3.1.17. Non-derivative financial liabilities

Upon initial recognition, financial liabilities of the Group are classified into one of the categories listed below.

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

These liabilities are classified as either held for trading or those that are designated upon initial recognition. Liabilities are initially recognised at fair value with direct transaction costs such as brokerage and commission expensed through the profit or loss. Recognition date is at trade date, being the date on which the Group commits to purchase or sell the liability.

Fair value is determined using the offer price where available. Movements in the fair value are recognised in the profit or loss.

The Group designates certain short-term offshore borrowings as being at fair value through profit or loss. This designation is made on the basis that the program is hedged by a portfolio of foreign exchange swaps which are accounted for at fair value through profit or loss due to their classification as a derivative.

(b) Financial liabilities at amortised cost

Financial liabilities, other than financial liabilities at fair value through profit or loss and financial liabilities designated as part of effective fair value hedging relationships, are initially measured at fair value plus direct acquisition costs and subsequently measured at amortised cost using the effective interest method. This includes bank acceptances, payables due to other financial institutions and deposits and other borrowings such as debt issues.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date (repurchase agreement), the financial assets sold under such agreements continue to be recognised in the statement of financial position and the obligation to repurchase is recognised as deposits and short-term borrowings.

(c) Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a financial liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

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

(d) De-recognition of financial liabilities

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

3.1.18. Employee entitlements

Following a Suncorp Group restructure on 7 January 2011, all staff are employed under a central employee company which is now a subsidiary of the ultimate parent entity, Suncorp Group Limited.

3.1.19. Loan capital

Loan capital is debt which has terms and conditions, such as being undated or subordinated, which qualify it for inclusion as capital under APRA Prudential Standards but as a liability under accounting standards.

(a) Subordinated notes

Subordinated notes are initially recognised at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Interest payments and accruals in relation to subordinated notes are classified as a finance cost. Gains or losses on derecognition are recognised in the profit or loss.

3.1.19. Loan capital (continued)

(b) Preference shares

Reset preference shares (RPS) and Convertible Preference Shares (CPS) are recognised as liabilities at amortised cost. The capital is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. Dividends are charged as an interest expense as accrued.

RPS are exchangeable on specific dates at the option of the holder. Once an exchange request is received, the Group can elect to exchange the RPS for cash or a variable number of SML ordinary shares, exhibiting characteristics of a financial liability.

While the convertible preference shares had no specified maturity date, conversion to ordinary shares occurred on the mandatory conversion date, 14 June 2013. Hence these exhibited characteristics of a financial liability.

3.1.20. Share capital

(a) Repurchase of share capital

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

(b) 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.

3.1.21. Capital notes

The 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.

3.1.22. 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.

3.2. New accounting standards and interpretations not yet adopted

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

- AASB 10 *Consolidated Financial Statements*, when it becomes mandatory for the Group's 30 June 2014 financial statements, will supersede AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purposes Entities*. It introduces a new single control model to assess whether to consolidate an investee. Adoption of this standard will have an immaterial effect to the Group.
- AASB 13 *Fair Value Measurement provides a* definition of the term, fair value, and introduces additional disclosure requirements. This is applicable for all assets and liabilities measured at fair value, including non-financial assets and liabilities. This standard becomes mandatory for the Group's 30 June 2014 financial statements. Adoption of this standard will have an immaterial effect to the Group.
- 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 2016 financial statements. The potential effects on adoption of the amendments are yet to be determined.

3.2. New accounting standards and interpretations not yet adopted (continued)

- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* (June 2012) amends AASB 7 to increase the disclosures about offset positions, including the gross position and the nature of the arrangements. This amendment becomes mandatory for the Group's 30 June 2014 financial statements. The potential effects on adoption of the amendments are yet to be determined.
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* amendment to AASB 132 clarifies when an entity has a legally enforceable right to set-off financial assets and financial liabilities permitting entities to present balances net on the balance sheet. This amendment becomes mandatory for the Group's 30 June 2015 financial statements. The potential effects on adoption of the amendments are yet to be determined.

Other new standards, and amendments to standards effective for annual reporting periods after 1 July 2013 that have not yet been early adopted, are not expected to have a significant impact to the Group.

4. Segment reporting

*O*perating 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 Group's Chief Operating Decision Maker) 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 4.1.

4.1. Operating segments

The Group is comprised of the following operating segment:

Segment	Business area	Business activities
Banking	Banking	Provision of personal and commercial banking, agribusiness, property and equipment finance, home, personal and small business loans, savings and transaction accounts, foreign exchange and treasury products and services in Australia.

Segment results presented are measured on a consistent basis to how they are reported to the Chief Operating Decision Maker:

Operating segments	Banking	
	2013	2012
	$m	$m
Revenue from external customers	3,587	4,255
Total segment revenue	3,587	4,255
Segment profit before income tax	(484)	33
Segment income tax expense	135	(11)
Segment profit after income tax	(349)	22
Other segment disclosures		
Interest revenue	3,421	4,025
Interest expense	(2,435)	(3,097)
Depreciation and amortisation expense	(39)	(40)
Losses on loans and advances	(902)	(432)
Segment assets	61,939	62,250
Segment liabilities	58,798	59,510

4.2. Reconciliation of reportable segment revenues, profit after income tax, assets and liabilities

	Consolidated	
	2013	2012
	$m	$m
Segment revenue	3,587	4,255
Consolidated total	3,587	4,255
Segment profit after income tax	(349)	22
Profit for the financial year	(349)	22
Segment assets	61,939	62,250
Consolidated total	61,939	62,250
Segment liabilities	58,798	59,510
Consolidated total	58,798	59,510

4.3. Geographical segments

The Group operates in one geographical segment being Australia. Revenue from overseas customers are not material to the Group.

4.4. Major customers

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

5. Changes in the composition of the Group

5.1. Subsidiaries

Acquisitions

The Group did not acquire any material subsidiaries during the current and prior financial years.

Disposals

The Group did not dispose of any investment in subsidiaries during the current and prior financial years.

5.2. Associates and joint venture entities

Acquisitions

The Group did not acquire any interests in joint ventures or associates in the current or prior financial year.

Disposals

The Group did not dispose of any interests in joint ventures or associates in the current financial year.

During the prior period, the Group disposed of its 50% interest in the Polaris Data Centre joint venture asset. The investment in the joint venture asset was classified as property, plant and equipment, with a carrying amount of $69 million. A gain on sale of $34 million was recognised in other income.

6. Income

	Consolidated 2013 $m	Consolidated 2012 $m	Company 2013 $m	Company 2012 $m
Interest income				
Cash and cash equivalents	12	17	12	17
Receivables due from other banks	35	87	35	87
Trading securities [1]	128	195	128	195
Investment securities	255	353	255	353
Loans, advances and other receivables	2,991	3,373	2,954	3,319
	3,421	4,025	3,384	3,971
Interest expense				
Deposits and short-term borrowings [1]	(1,655)	(2,008)	(1,663)	(2,010)
Derivatives	(167)	(365)	(167)	(365)
Securitisation liabilities	(187)	(214)	-	-
Debt issues	(369)	(410)	(369)	(412)
Subordinated notes	(24)	(54)	(24)	(54)
Preference shares	(33)	(46)	(33)	(46)
	(2,435)	(3,097)	(2,256)	(2,887)
Net interest income	986	928	1,128	1,084
Other operating income				
Banking fee and commission income	183	186	180	180
Banking fee and commission expense	(106)	(90)	(106)	(89)
Net banking fee and commission income	77	96	74	91
Dividends	-	-	34	89
Net profits on derivative and other financial instruments:[2,3]				
Realised	4	(3)	4	(3)
Unrealised	(25)	5	(25)	5
Gain on disposal of property, plant and equipment	-	34	-	-
Other fees and commissions	-	-	402	252
Other revenue	4	8	4	5
	(17)	44	419	348
Total other operating income	60	140	493	439
Total net operating income	1,046	1,068	1,621	1,523

Notes

1. The components of interest income and expense that relate to financial assets or liabilities carried at fair value through profit and loss are those related to trading assets of $128 million (2012: $196 million) and liabilities designated at fair value through profit and loss of $25 million (2012: $25 million) respectively for both Company and Consolidated.
2. Included within net profits on derivatives and other financial instruments for both Company and Consolidated are gains (losses) on derivatives held in qualifying fair value hedging relationships of $6 million (2012: ($74 million)) and gains (losses) representing changes in fair value of the hedged items attributable to the hedged risk of ($6 million) (2012: $74 million).
3. Net gains (losses) on financial assets and liabilities carried at fair value through profit and loss are those related to trading assets of $1 million (2012: $nil) and liabilities designated at fair value through profit and loss of ($2 million) (2012: $nil) respectively for both Company and Consolidated.

7. Expenses

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Staff expenses				
Wages, salaries and other staff costs	360	343	360	343
	360	343	360	343
Occupancy and equipment expenses				
Operating lease rentals	73	67	73	67
	73	67	73	67
Information technology and communication	37	43	37	43
Depreciation and amortisation				
Depreciation	39	40	39	40
	39	40	39	40
Other expenses				
Advertising and promotion expenses	30	35	30	35
Office supplies, postage and printing expenses	28	24	28	24
Inter-group expenses	-	-	589	446
Financial expenses	9	14	9	14
Other	52	37	51	57
	119	110	707	576
Total operating expenses	628	603	1,216	1,069

Note

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

8. Income tax

8.1. Income tax expense

	Consolidated		Company	
	2013 $m	2012 $m	2013 $m	2012 $m
Profit before tax	(484)	33	(499)	34
Income tax using the domestic corporation tax rate of 30% (2012: 30%)	(145)	10	(149)	10
Increase/(decrease) in income tax expense due to:				
Non-deductible expenses	10	14	10	12
Intercompany dividend elimination	-	-	(10)	(26)
Other	-	(12)	-	-
	(135)	12	(149)	(4)
(Over) provision in prior years	-	(1)	-	(1)
Income tax expense (benefit) on profit before tax	(135)	11	(149)	(5)
Income tax expense (benefit) recognised in profit or loss consists of:				
Income tax from continuing operations	(189)	36	(192)	10
Temporary differences from deferred tax (benefit) expense	78	(21)	67	(11)
Adjustment for prior years	(24)	(4)	(24)	(4)
Total income tax expense (benefit) recognised in the profit or loss	(135)	11	(149)	(5)

8.2. Current tax liabilities

In accordance with the tax consolidation legislation, the head entity of the tax-consolidated group has assumed the current tax liability recognised by the Company. Hence the current tax liability of the Company for the current and previous years has been assumed by Suncorp Group Limited and there is no current tax liability in the Company.

8.3. Deferred tax assets and liabilities

Consolidated	Deferred tax assets		Deferred tax liabilities		Net	
	2013	2012	2013	2012	2013	2012
	$m	$m	$m	$m	$m	$m
Other investments	35	68	-	-	35	68
Provisions	105	164	-	-	105	164
Other items	6	10	(5)	(1)	1	9
Tax assets (liabilities)	146	242	(5)	(1)	141	241
Set-off of tax	(5)	(1)	5	1	-	-
Net tax assets	141	241	-	-	141	241

	Deferred tax assets		Deferred tax liabilities	
	2013	2012	2013	2012
Movements	$m	$m	$m	$m
Balance at the beginning of the financial year	242	199	(1)	(17)
(Charged) credited to profit or loss	(96)	43	18	(22)
Credited (charged) to equity	-	-	(22)	38
Balance at the end of the financial year	146	242	(5)	(1)

Company	Deferred tax assets		Deferred tax liabilities		Net	
	2013	2012	2013	2012	2013	2012
	$m	$m	$m	$m	$m	$m
Other investments	35	68	-	-	35	68
Provisions	105	162	-	-	105	162
Other items	6	14	(5)	(11)	1	3
Tax assets (liabilities)	146	244	(5)	(11)	141	233
Set-off of tax	(5)	(11)	5	11	-	-
Net tax assets (liabilities)	141	233	-	-	141	233

	Deferred tax assets		Deferred tax liabilities	
	2013	2012	2013	2012
Movements	$m	$m	$m	$m
Balance at the beginning of the financial year	244	197	(11)	(15)
(Charged) credited to profit or loss	(98)	47	31	(36)
Credited (charged) to equity	-	-	(25)	40
Balance at the end of the financial year	146	244	(5)	(11)

There are no unrecognised deferred tax assets and liabilities.

8.4. Deferred tax recognised in directly in equity

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Deferred tax recognised directly in equity				
Relating to available-for-sale financial assets	-	(18)	1	(18)
Relating to cash flow hedges	23	(20)	25	(22)
	23	(38)	26	(40)

8.5. Tax consolidation

Suncorp Group Limited and its wholly-owned Australian entities have elected to form part of a tax-consolidated group. The accounting policy in relation to tax consolidation legislation and its application to the Company is set out in note 3.1.6.

9. Dividends

Company	2013		2012	
	Cents per share	$m	Cents per share	$m
Dividend payments on ordinary shares				
2012 final dividend (2012: 2011 final dividend)	-	-	25	46
2013 interim dividend (2012: 2012 Interim dividend)	-	-	24	55
Special dividend[1]	-	-	215	400
Total dividends on ordinary shares		-		501
Dividends not recognised in the statement of financial position				
Since financial year end, the 2013 final dividend (2012: 2012 final dividend) has been proposed	**-**	**-**	-	-
		-		-

Note

1. Special dividend paid to the parent entity on 30 September 2011 with concurrent equal investment in new ordinary shares of the company.

Dividends have been franked at 0% (2012: 0%). All franking credits were transferred to Suncorp Group Limited as part of the restructure.

The Group is a member of a tax-consolidated group. Suncorp Group Limited, being the head company of the tax-consolidated group, operates a single franking account for the tax-consolidated group. As such, the Group does not have any franking credits available for use in subsequent financial years (2012: $nil).

10. Cash and cash equivalents

	Consolidated		Company	
	2013 $m	2012 $m	2013 $m	2012 $m
Cash and balances with the central bank	108	104	108	104
Other money market placements	797	445	796	445
Total cash and cash equivalents	905	549	904	549

11. Receivables due from other banks

	Consolidated		Company	
	2013 $m	2012 $m	2013 $m	2012 $m
Cash collateral[1]	529	1,890	529	1,890
Other receivables due from financial institutions	162	154	162	154
Receivable due from sale of loan portfolio	769	-	769	-
Total receivables due from other banks	1,460	2,044	1,460	2,044

Note

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

12. Trading securities

	Consolidated		Company	
	2013 $m	2012 $m	2013 $m	2012 $m
Trading securities - current				
Financial assets at fair value through profit or loss				
Interest-bearing securities: Bank bills, certificates of deposits and other negotiable securities	3,462	4,787	3,462	4,787
Total trading securities	3,462	4,787	3,462	4,787

13. Derivatives

Consolidated

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

Company

	2013			2012		
	Notional value	Fair value Asset	Fair value Liability	Notional value	Fair value Asset	Fair value Liability
	$m	$m	$m	$m	$m	$m
Exchange rate-related contracts						
Forward foreign exchange contracts	4,558	355	(28)	4,628	11	(81)
Cross currency swaps	3,263	63	(581)	6,376	72	(1,678)
Currency options	17	-	-	17	-	-
	7,838	418	(609)	11,021	83	(1,759)
Interest rate-related contracts						
Forward rate agreements	350	-	-	100	-	-
Interest rate swaps	38,756	245	(317)	61,583	337	(465)
Interest rate futures	2,376	2	(1)	2,811	4	(1)
Interest rate options	148	2	(2)	182	-	-
	41,630	249	(320)	64,676	341	(466)
Total derivative exposures	49,468	667	(929)	75,697	424	(2,225)

14. Investment securities

	Consolidated		Company	
	2013 $m	2012 $m	2013 $m	2012 $m
Investments at cost				
Shares in subsidiaries	-	-	31	40
	-	-	31	40
Available-for-sale financial assets				
Interest-bearing securities	2,352	2,522	2,352	2,522
Unit trusts	-	14	-	-
	2,352	2,536	2,352	2,522
Held-to-maturity investments				
Interest-bearing securities	4,288	3,772	4,288	3,772
	4,288	3,772	4,288	3,772
Total investment securities	6,640	6,308	6,671	6,334
Current	-	14	-	-
Non-current	6,640	6,294	6,671	6,334
Total investment securities	6,640	6,308	6,671	6,334

15. Loans, advances and other receivables

	Consolidated		Company	
	2013 $m	2012 $m	2013 $m	2012 $m
Housing loans[1]	37,158	33,955	37,158	33,955
Consumer loans	463	482	463	482
Business loans	10,577	13,392	10,142	12,954
Other lending	101	28	119	56
Loans to related parties	366	201	366	201
	48,665	48,058	48,248	47,648
Provision for impairment	(300)	(537)	(299)	(530)
Total loans, advances and other receivables	48,365	47,521	47,949	47,118
Current	12,851	7,581	12,817	7,510
Non-current	35,514	39,940	35,132	39,608
Total loans, advances and other receivables	48,365	47,521	47,949	47,118

Note

1. Includes securitised home loan balances of $5.0 billion (2012: $4.2 billion) which has an associated securitised liability.

15. Loans, advances and other receivables (continued)

Finance lease receivables

Included in business loans are the following finance lease receivables:

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

16. Provision for impairment

A specific provision for impairment is recognised where there is objective evidence of the impairment for an individual loan and full recovery of the principal is considered doubtful. Where loans are not assessed as individually impaired, they are classified into groups of loans with similar credit risk characteristics and collectively assessed for impairment. Collective impairment provisions are based on historical loss experience adjusted, where appropriate, for current observable data.

16.1. Reconciliation of provision for impairment on loans, advances and other receivables

	Consolidated		Company	
	2013 $m	2012 $m	2013 $m	2012 $m
Collective provision				
Balance at the beginning of the financial year	145	177	141	172
(Credit) charge against impairment losses	(43)	(32)	(40)	(31)
Balance at the end of the financial year	102	145	101	141
Specific provision				
Balance at the beginning of the financial year	392	387	389	381
Charge against impairment losses	399	406	402	406
Impaired assets written off	(485)	(255)	(483)	(253)
Increase (decrease) in specific provision for impairment	(86)	151	(81)	153
Unwind of discount	(108)	(146)	(110)	(145)
Balance at the end of the financial year	198	392	198	389
Total provision for impairment	300	537	299	530

16.2. Impairment expense on loans, advances and other receivables

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Decrease in collective provision for impairment	(43)	(32)	(40)	(31)
Increase in specific provision for impairment	399	406	402	406
Bad debts written off	29	39	25	32
Bad debts recovered	(10)	(8)	(10)	(8)
Total impairment expense	375	405	377	399

16.3. Loss on disposal of loans and advances

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Loss on sale of loans and advances[1]	527	27	527	21
Total loss on disposal of loans and advances	527	27	527	21

Note

1. Includes $484 million loss, net of provisions, on the sale for $940 million of the $1.6 billion non-core loan portfolio announced on 13 June 2013.

17. Other assets

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Deferred expenditure - lease brokerage	3	2	-	-
Accrued income	110	118	109	116
Prepayments	4	10	4	10
Sundry assets	120	184	110	163
Development property	36	36	-	-
Total other assets	273	350	223	289
Current	237	314	223	289
Non-current	36	36	-	-
Total other assets	273	350	223	289

18. Deposits and short-term borrowings

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Unsecured				
Financial liabilities at amortised cost				
Call deposits	11,669	10,075	11,728	10,126
Term deposits	20,390	19,960	20,390	19,960
Short-term securities issued	7,671	7,466	7,671	7,466
Offshore borrowings at amortised cost	132	305	132	305
Designated as at fair value through profit or loss				
Offshore borrowings	3,999	3,715	3,999	3,715
Total deposits and short-term borrowings - current	43,861	41,521	43,920	41,572

Deposits and short-term borrowings outstanding at 30 June 2013 of $280 million (2012: $nil) have been obtained under repurchase agreements with the Reserve Bank of Australia.

19. Payables and other liabilities

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Accrued interest payable	424	493	416	485
Trade creditors and accrued expenses	201	141	192	129
Payables due to related parties	115	57	115	57
Other liabilities	15	-	15	-
Total payables and other liabilities	755	691	738	671
Current	755	691	738	671
Total payables and other liabilities	755	691	738	671

20. Securitisation liabilities

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Secured				
Class A1 Notes AUD	3,157	2,030	-	-
Class A2 Notes AUD	550	548	-	-
Class A2 Notes EUR	340	453	-	-
Class A3 Notes AUD	458	579	-	-
Class AB Notes AUD	180	115	-	-
Class B Notes AUD	99	114	-	-
Class B1 Notes AUD	12	-	-	-
Class B2 Notes AUD	6	-	-	-
Total securitisation liabilities	4,802	3,839	-	-
Current	1,328	1,031	-	-
Non-current	3,474	2,808	-	-
Total securitisation liabilities	4,802	3,839	-	-

21. Debt issues

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Borrowings at amortised cost				
Offshore borrowings	2,259	4,334	2,259	4,334
Domestic borrowings	2,858	3,666	2,858	3,672
Total unsecured debt issues	5,117	8,000	5,117	8,006
Domestic covered bonds issued	2,196	1,598	2,196	1,598
Total secured debt issues	2,196	1,598	2,196	1,598
Total debt issues	7,313	9,598	7,313	9,604
Current	3,166	3,086	3,166	3,092
Non-current	4,147	6,512	4,147	6,512
Total debt issues	7,313	9,598	7,313	9,604

Covered bonds issued are guaranteed by the Covered Bond Guarantor and are secured over a covered pool which consists of $ 2,716 million (2012: $2,139 million) of loans, advances and other receivables. The Covered Bond Guarantor can take possession of the cover pool under certain Title Perfection Events, as detailed in clause 6.1 of the Mortgage Sale Deed.

22. Subordinated notes

Consolidated and Company				
			2013	2012
	Due date	First call	$m	$m
Unsecured				
Financial liabilities at amortised cost				
Fixed rate notes (USD)	June 2013	Not applicable	-	104
Fixed rate notes (GBP)	October 2017	October 2012	-	392
Floating rate notes (AUD)	November 2023	November 2018	670	-
Perpetual floating rate notes (AUD)			170	170
Total subordinated notes			840	666
Current			-	496
Non-current			840	170
Total subordinated notes			840	666

23. Preference shares

Consolidated and Company				
	2013 No. of shares	2012 No. of shares	2013 $m	2012 $m
Reset preference shares each fully paid	304,063	304,063	30	30
Convertible preference shares each fully paid	-	7,350,000	-	732
Total preference shares	304,063	7,654,063	30	762
Current			30	732
Non-current			-	30
Total preference shares			30	762

23. Preference shares (continued)

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

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

23.1. Reset preference shares

The reset preference shares (RPS) are perpetual, paying fixed non-cumulative dividends with certain terms periodically reset. Holders have an option on each reset date to request the preference shares be exchanged. Once a holder's exchange request is received, the Company has the option to elect to exchange for cash or Company ordinary shares of approximately equal value to the original issue price of the preference shares, or to have the preference shares acquired by a third party with proceeds delivered to the holder. It is the Company's current intention to exchange the relevant RPS for cash consideration rather than exchanging the RPS for Company ordinary shares (subject to APRA approval).

Holders of the RPS are entitled to receive a dividend as calculated by the formula set out in the Information Memorandum dated 16 August 2001. Such dividends are at the discretion of the directors and only payable if the restrictions as set out in the Information Memorandum are complied with. The dividends are expected to be fully franked.

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

23.2. Convertible preference shares (CPS)

The convertible preference shares (CPS) were fully paid preference shares issued by the Company. In June 2013, the CPS were repurchased from preference shareholders and converted into a variable number of ordinary shares which were subsequently bought back by the Company.

23.3. Preference shares dividends paid

Consolidated and Company	2013 Cents per share	2013 $m	2012 Cents per share	2012 $m
Recognised as interest expense				
Reset preference shares				
Period from March to September	212	1	255	3
Period from September to March	209	1	210	1
Total dividends on reset preference shares		2		4
Convertible preference shares				
September quarter	119	9	145	11
December quarter	119	9	141	10
March quarter	110	8	134	10
June quarter	110	8	136	10
Total dividends on convertible preference shares		34		41

24. Share capital

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Issued capital				
Balance at the beginning of the financial year	2,189	1,789	2,189	1,789
Shares issued	998	400	998	400
Share buy-back	(735)	-	(735)	-
Total shares issued	2,452	2,189	2,452	2,189

Consolidated and Company		
	2013	2012
	Number	Number
Ordinary Shares		
Balance at the beginning of the financial year	225,634,572	185,634,572
Issued to parent entity	33,650,000	40,000,000
Share buy-back	(7,350,000)	-
Balance at the end of the financial year	251,934,572	225,634,572

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

Ordinary shares

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

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

25. Capital notes

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Balance at the beginning of the financial year	-	-	-	-
Issued to ultimate parent entity	450	-	450	-
Balance at the end of the financial year	450	-	450	-

The Capital notes are perpetual, subordinated notes issued to the Group's ultimate parent entity, Suncorp Group Limited, on 17 December 2012. The 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.

25.1. Dividends paid on capital notes

Consolidated and Company		
	2013	2012
	$m	$m
Capital notes		
Period from December to March	6	-
Period from March to June	6	-
Total dividends on capital notes	12	-

26. Reserves

	Note	Consolidated 2013 $m	Consolidated 2012 $m	Company 2013 $m	Company 2012 $m
Equity reserve for credit losses					
Balance at the beginning of the financial year		147	157	147	157
Transfer to retained profits		(16)	(10)	(16)	(10)
Balance at the end of the financial year		131	147	131	147
Hedging reserve					
Balance at the beginning of the financial year		(110)	(66)	(115)	(68)
Amount recognised in equity		47	(59)	52	(64)
Amount transferred from equity to profit or loss		25	(5)	25	(5)
Income tax benefit (expense)	8.4	(23)	20	(25)	22
Balance at the end of the financial year		(61)	(110)	(63)	(115)
Assets available-for-sale reserve					
Balance at the beginning of the financial year		(4)	38	(5)	37
Change in fair value recognised in equity		10	(53)	10	(53)
Change in fair value transferred from equity to profit or loss		(10)	(7)	(8)	(7)
Income tax benefit (expense)	8.4	-	18	(1)	18
Balance at the end of the financial year		(4)	(4)	(4)	(5)
Common control reserve					
Balance at the beginning of the financial year		(372)	(372)	-	-
Balance at the end of the financial year		(372)	(372)	-	-
Total reserves		(306)	(339)	64	27

Equity reserves for credit losses

The equity reserve for credit losses represents the difference between the Group's collective provisions for impairment and the estimate of credit losses across the credit cycle based on guidance provided by APRA.

Hedging reserve

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

Assets available-for-sale reserve

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

Common control reserve

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

27. Capital

27.1. Capital adequacy

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

Tier 1 capital comprises the highest quality components of capital and can be split into Common Equity Tier 1 capital and Additional Tier 1 capital. Common Equity Tier 1 capital is the strongest form of capital such as ordinary share capital, reserves and retained profits. Additional Tier 1 capital comprises instruments such as reset preference shares and capital notes.

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

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

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

The measurement of risk-weighted exposures is based on:

- Credit risk associated with on-balance sheet and off-balance sheet assets, and securitisation exposures
- Market risk arising from trading activities
- Operational risk associated with banking activities.

For the calculation of capital requirements, the Group has adopted the Standardised Approach.

Capital reforms

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

Included in this package were expanded disclosure requirements that are intended to improve the transparency of regulatory capital and to enhance market discipline.

The reforms became effective from 1 January 2013.

The composition of capital disclosure measures are set out in the Basel Committee's *Composition of capital disclosure requirements (June 2012)* which include a common disclosure template, capital reconciliation, a summary of the main features of regulatory capital instruments and other regulatory disclosures.

The Group has included these capital disclosures as part of its Basel III APS 330 publication which is available at www.suncorpgroup.com.au/investors/regulatory-disclosures.

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27.1. Capital adequacy (continued)

Consolidated	2013 $m	2012 $m
Tier 1 capital		
Common Equity Tier 1 capital		
Ordinary share capital	2,452	2,189
Retained profits	170	517
Accumulated other comprehensive income	(4)	(4)
	2,618	2,702
Regulatory adjustments to Common Equity Tier 1 capital		
Goodwill and other intangibles arising on acquisition	(26)	(27)
Deferred tax assets	(113)	(191)
Investments in non-consolidated subsidiaries, capital support	(25)	(26)
Other adjustments to CET1	(122)	(81)
	(286)	(325)
Common Equity Tier 1 capital	2,332	2,377
Additional Tier 1 capital		
Eligible capital	450	-
Ineligible hybrid capital (applicable to transitional relief under APS 160)	30	765
	480	765
Total Tier 1 capital	2,812	3,142
Tier 2 capital		
APRA general reserve for credit losses	195	253
Eligible hybrid capital	670	578
Ineligible hybrid capital (applicable to transitional relief under APS 160)	170	206
	1,035	1,037
Total Tier 2 capital	1,035	1,037
Total capital	3,847	4,179
Total assessed risk-weighted exposures	30,722	33,426
Risk-weighted capital ratios	%	%
Common Equity Tier 1	7.59	7.11
Total Tier 1	9.15	9.40
Total Tier 2	3.37	3.10
Total risk-weighted capital ratio	12.52	12.50

Note
1. For comparative purposes only, 2012 has been restated to be consistent with Basel III reforms introduced during the current financial year.

27.1. Capital adequacy (continued)

(a) Risk-weighted exposures

Consolidated	Carrying amount		Risk-weighted balance	
	2013	2012	2013	2012
	$m	$m	$m	$m
On-balance sheet assets				
Cash items	247	161	30	13
Claims on Australian and foreign Governments	1,078	1,285	-	-
Claims on central banks, international banking agencies, regional development banks, ADIs and overseas banks	6,013	5,954	1,233	1,191
Claims secured against eligible residential mortgages	34,320	32,284	13,635	12,900
Past due claims	761	2,262	776	3,041
Other assets and claims	11,170	12,107	9,690	10,857
Total banking assets	53,589	54,053	25,364	28,002

	Notional value	Credit equivalent	Risk-weighted balance	
	2013	2013	2013	2012
	$m	$m	$m	$m
Off-balance sheet positions				
Guarantees entered into in the normal course of business	317	307	226	152
Commitments to provide loans and advances	6,800	1,723	1,055	830
Foreign exchange contracts	7,838	351	102	79
Interest rate contracts	45,379	165	100	191
CVA capital charge	-	-	182	376
Total off-balance sheet positions	60,334	2,546	1,665	1,628

	2013 $m	2012 $m
Market risk capital charge	385	462
Operational risk capital charge	3,308	3,334
Total off-balance sheet positions	1,665	1,628
Total on-balance sheet credit risk-weighted assets	25,364	28,002
Total assessed risk-weighted exposures	30,722	33,426

Note

1. For comparative purposes only, 2012 has been restated to be consistent with Basel III reforms introduced during the current financial year.

27.2. 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. The main objectives are to support the Suncorp Group's credit rating, ensure 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. The Suncorp Group's capital policy is to hold surplus capital in Suncorp Group Limited as it is the holding company of the Suncorp Group.

The Group's capital management strategy contributes to the Suncorp Group capital management plan. The Group is subject to and in compliance with capital adequacy requirements imposed by APRA.

Suncorp-Metway Limited is an Authorised Deposit-taking Institution (**ADI**) and is subject to APRA prudential standards which set out the basis for calculating its Common Equity Tier 1 (**CET1**), Tier 1 and Total eligible capital and its risk-weighted exposures (**RWE**).

For capital adequacy purposes, an ADI's capital base is the sum of its Tier 1 capital (represented by CET1 and Additional Tier 1 capital) and Tier 2 capital after all specified deductions and adjustments. Goodwill and other intangible assets are required to be deducted from CET1 capital. The CET1, Tier 1 and Total eligible capital ratios relative to RWE are the ADI's capital adequacy ratios and APRA has set a prudential capital ratio (**PCR**) for the CET1 ratio, the Tier 1 ratio and the Total ratio, below which the ADI's capital adequacy ratio must not fall.

The PCR is the minimum level of capital that the regulator deems must be held to meet deposit holder obligations. An ADI's capital base is expected to be adequate for its size, business mix, complexity and the risk profile of its business and therefore applies a risk-based approach to capital adequacy.

Suncorp-Metway Limited and its subsidiaries use the standardised framework for calculating RWE in accordance with the relevant prudential standards.

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

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

These risks are quantified and then aggregated to determine the RWE under the prudential standards. This RWE is compared with the CET1, Tier 1 and Total eligible capital held in Group to determine the capital adequacy ratios.

The capital adequacy ratios of the Group calculated strictly in accordance with APRA guidelines were 7.59% for CET1, 9.15% for Tier 1 capital, and 12.52% for Total eligible capital (2012: 12.50% (adjusted for Basel III)). The capital adequacy ratios of the Group are set out in note 27.1.

The Group satisfied all externally imposed capital requirements which it is subject to during the current financial year and the prior financial year.

There were no changes in the Group's approach to capital management during the year.

28. Fair values of financial instruments

28.1. 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. The basis for determining their fair values is described in note 3.1.10(a).

- Trading securities
- Certain investment securities designated as available-for-sale
- Certain short-term offshore borrowings designated as financial liabilities at fair value through profit or loss
- Derivatives.

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

	Consolidated				Company			
	2013		2012		2013		2012	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	$m	$m	$m	$m	$m	$m	$m	$m
Financial assets								
Loans, advances and other receivables	48,365	48,443	47,521	47,742	47,949	48,027	47,118	47,290
Investment securities	4,288	4,327	3,772	3,757	4,288	4,327	3,772	3,757
Financial liabilities								
Deposits and short-term borrowings	39,862	39,935	37,806	37,637	39,921	39,994	37,857	37,637
Securitisation liabilities	4,802	4,802	3,839	3,839	-	-	-	-
Debt issues	7,313	7,490	9,598	9,643	7,313	7,490	9,604	9,643
Subordinated notes	840	840	666	666	840	840	666	666
Preference shares	30	30	762	750	30	30	762	750

28.1. Comparison of fair value to carrying amounts (continued)

Significant assumptions and estimates used to determine the fair values:

Financial assets

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

The fair value of held-to-maturity investments are determined based on quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used. Valuation techniques employed include discounted cash flow analysis using expected future cash flows and a market-related discount rate.

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

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

Financial liabilities

The carrying value of non-interest-bearing, call and variable rate deposits and fixed rate deposits repricing within six months, approximate their fair value. Discounted cash flow models are used to calculate the fair value of other term deposits based upon deposit type and related maturities. As the payables due to other banks and payables and other liabilities are short-term in nature, their carrying value approximates fair value.

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

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

28.2. Fair value hierarchy

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

- 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; or
- Level 3 – fair value measurement is not based on observable market data.

Consolidated

	Level 1 2013 $m	Level 2 2013 $m	Level 3 2013 $m	Total 2013 $m	Level 1 2012 $m	Level 2 2012 $m	Level 3 2012 $m	Total 2012 $m
Financial assets								
Trading securities	-	3,462	-	3,462	-	4,787	-	4,787
Investment securities	-	2,352	-	2,352	-	2,522	14	2,536
Derivatives	2	624	41	667	4	324	96	424
	2	6,438	41	6,481	4	7,633	110	7,747
Financial liabilities								
Deposits and short-term borrowings	-	(3,999)	-	(3,999)	-	(3,715)	-	(3,715)
Derivatives	(1)	(882)	(101)	(984)	(1)	(2,146)	(222)	(2,369)
	(1)	(4,881)	(101)	(4,983)	(1)	(5,861)	(222)	(6,084)

Company

	Level 1 2013 $m	Level 2 2013 $m	Level 3 2013 $m	Total 2013 $m	Level 1 2012 $m	Level 2 2012 $m	Level 3 2012 $m	Total 2012 $m
Financial assets								
Trading securities	-	3,462	-	3,462	-	4,787	-	4,787
Investment securities	-	2,352	-	2,352	-	2,522	-	2,522
Derivatives	2	624	41	667	4	324	96	424
	2	6,438	41	6,481	4	7,633	96	7,733
Financial liabilities								
Deposits and short-term borrowings	-	(3,999)	-	(3,999)	-	(3,715)	-	(3,715)
Derivatives	(1)	(882)	(46)	(929)	(1)	(2,146)	(78)	(2,225)
	(1)	(4,881)	(46)	(4,928)	(1)	(5,861)	(78)	(5,940)

There have been no transfers between Level 1 and Level 2 during the financial year (2012: nil).

Level 3 investment securities for the prior financial year consisted of holdings in unlisted unit trusts. The valuation methodology used for these Level 3 investment securities was based on the latest available redemption price published by the external manager for the unlisted unit trusts.

Level 3 derivatives relate to long dated interest rate swaps and cross currency swaps in relation to the Apollo securitisation trusts where a significant input is the amortisation profile of the mortgage portfolio. The valuation methodology for derivative financial instruments classified within Level 3 of the fair value hierarchy is based on market data using observable quoted rights for actively traded tenor points. Where interpolation is used to value an instrument for the correct time period observable inputs such as the bank bill swap rate (BBSW), yield curve and swap curve rates are used.

28.2. Fair value hierarchy (continued)

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

The following table discloses the movements in financial instruments classified as Level 3 in the fair value hierarchy:

Consolidated

Financial instruments classified as Level 3 in the fair value hierarchy	Asset Investment securities 2013 $m	Asset Derivatives 2013 $m	Liability Derivatives 2013 $m	Asset Investment securities 2012 $m	Asset Derivatives 2012 $m	Liability Derivatives 2012 $m
Balance at the beginning of the financial year	14	96	(222)	11	35	(164)
Change in fair value recognised in other operating income	-	(10)	174	-	62	(58)
Change in fair value recognised in equity	-	-	(5)	-	-	(4)
Purchases	-	16	-	3	-	-
Sales	(14)	(61)	(48)	-	(1)	4
Balance at the end of the financial year	-	41	(101)	14	96	(222)

Company

Financial instruments classified as Level 3 in the fair value hierarchy	Asset Derivatives 2013 $m	Liability Derivatives 2013 $m	Asset Derivatives 2012 $m	Liability Derivatives 2012 $m
Balance at the beginning of the financial year	96	(78)	35	(22)
Change in fair value recognised in equity	(10)	54	62	(60)
Purchases	16	-	-	-
Sales	(61)	(22)	(1)	4
Balance at the end of the financial year	41	(46)	96	(78)

29. Transfers of financial assets

(a) Assets sold under repurchase agreements

The Group has entered into repurchase agreements involving the sale of interest-bearing securities in exchange for cash and simultaneously agreeing to buy back the interest-bearing securities at a pre-agreed price on a future date.

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

(b) Securitisation

The Company conducts a loan securitisation programme whereby eligible loans are packaged and sold as securities issued by special purpose trusts.

The Company receives the residual income from the Trusts while the interest rate risk associated with the loans is transferred back to the Company by way of fixed interest rate and basis swaps. As such, the Company is deemed to have retained substantially all of the risks and rewards associated with the loans and therefore continues to recognise them as financial assets. The obligation to repay this amount to the Trusts is recognised as a financial liability of the Company.

(c) Covered bonds

The Company also conducts a covered bond programme whereby it issues covered bonds which are secured by a cover pool of eligible loans and advances sold to a special purpose trust which guarantees the covered bonds.

The Company receives the residual income from the Trust while the interest rate risk associated with the cover pool is transferred back to the Company by way of an interest rate swap. As such, the Company is deemed to have retained substantially all of the risks and rewards associated with the loans and therefore continues to recognise them as financial assets. The obligation to repay this amount to the Trust is recognised as a financial liability of the Company.

The following table sets out the carrying amount of the transferred financial assets and the associated liabilities at the balance date:

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Interest-bearing securities:				
Loans, advances and other receivables	-	-	7,280	5,834
Trading securities	280	-	280	-
	280	-	7,560	5,834
Associated financial liabilities:				
Deposits and short-term borrowings	(280)	-	(280)	-
Due to subsidiaries	-	-	(4,802)	(3,839)
Debt issues	-	-	(2,196)	(1,598)
	(280)	-	(7,278)	(5,437)
For those liabilities that have recourse only to the transferred assets:				
Fair value of transferred financial assets	280	-	4,844	3,695
Fair value of associated financial liabilities	(280)	-	(5,082)	(3,839)
Net position	-	-	(238)	(144)

30. Commitments

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

30.1. Credit commitments

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

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Notional amounts				
Guarantees entered into in the normal course of business	317	161	317	161
Commitments to provide loans and advances	6,800	6,122	6,800	6,122
	7,117	6,283	7,117	6,283
Credit equivalent amounts				
Guarantees entered into in the normal course of business	307	152	307	152
Commitments to provide loans and advances	1,723	1,366	1,723	1,366
	2,030	1,518	2,030	1,518

30.2. Operating lease expenditure commitments

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Aggregate non-cancellable operating lease rental payable but not provided in the financial statements:				
Less than one year	65	79	65	79
Between one and five years	112	158	112	158
More than five years	60	55	60	55
	237	292	237	292

The Group leases property under operating leases expiring from 1-12 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. Some of the leased properties are sub-let by the Group.

30.3. Operating lease receivable commitments

There are no operating lease receivable commitments in the current and prior financial years.

30.4. Capital expenditure commitments

There were no capital expenditure commitments in the current and prior financial years.

31. Contingent assets and liabilities

31.1. 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, are 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.

31.2. 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.

Contingent liabilities for which no provisions are included in these financial statements are as follows:

The Group has given guarantees and undertakings in the ordinary course of business in respect to credit facilities and rental obligations. Note 30 sets out details of these guarantees.

32. Risk management

32.1. Group risk management objectives and structure

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

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

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

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

The Three Lines of Defence model of accountability involves:

Line of Defence	Responsibility of	Accountable for
First – Manage risk and comply with Suncorp Group frameworks, policies and risk appetite	All business areas (and staff)	• Identifying and managing the risks inherent in their operations • Ensuring compliance with all legal and regulatory requirements and Suncorp Group policies; and • 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 Line of Business)	• 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 Line of Business risk frameworks that are consistent with Suncorp Group for the respective business areas; and • Facilitate the reporting of the appropriateness and quality of risk management.
Third – Independent assurance over internal controls and risk management practices	Board Audit Committee, internal and external auditors	• Decides the level and extent of independent testing required to verify the efficacy of internal controls • Validates the overall risk framework; and • Provides assurance that the risk management practices are functioning as intended.

32.1. Group risk management objectives and structure (continued)

In addition to the accountabilities as described above, the Suncorp Group Senior Leadership Team, consisting of the Group Chief Executive Officer and all Group Executives, provides executive oversight and direction-setting across the Group's internal control environment and the Group's risk management frameworks. Within risk parameters set by the SGL Board, the Senior Leadership Team approves principles, policies, limits, frameworks and processes used by the Group to identify, assess, monitor and control/mitigate risk.

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

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

The key risks addressed by the ERMF are defined below.

Key risks	Definition
Counterparty risk (Credit risk)	The risk that a counterparty will not meet its obligations in accordance with agreed terms.
Liquidity risk	The risk that the 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 & 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.
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 of loss arising from uncertainty about the future operating environment, including reputation, industry, economic and regulatory environment, branding, crisis management, and partners and suppliers.

The 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 investment in equity instruments from adverse movements in equity prices.
Credit spread risk	Credit spread is the difference in yield due to difference in credit quality. This is the risk of loss 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.

32.2. Credit risk

Credit risk is the risk of financial loss to the Group due to a borrower or counterparty not meeting its obligations in accordance with agreed terms. The Group's maximum exposure to credit risk is reflected in the carrying value of the assets listed in the tables within this section, except for derivatives which represent the current risk exposure (refer note 13).

Credit risk in the Group arises not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities.

Credit risk is managed on a structured basis with approval decisions being taken within credit approval authorities delegated by the SGL Board. The acceptance and management of credit risk is performed independently as is setting and maintaining of detailed credit policies and standards. The Bank Credit Risk Committee and the Bank Chief Risk Officer have responsibility for the independent management of credit functions to monitor trends impacting the credit quality of lending portfolios, develop and maintain risk grading and automated risk assessment systems and manage troublesome and impaired assets.

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

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

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

A credit inspection process is in place to review the acceptance and management of credit risk in accordance with the approved risk management framework.

The Group manages its exposure to credit losses on derivative contracts by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. The International Swaps and Derivatives Association (**ISDA**) Master Agreement provides a contractual framework for derivatives dealing across a full range of over-the-counter products. This agreement contractually binds both parties to apply close out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur.

The Group's maximum exposure to credit risk is detailed by asset class in the concentration of credit risk table in note 32.2.4. The exposure to credit risk is shown prior to any adjustment made for any collateral held.

The carrying amount of the relevant asset classes in the statement of financial position generally 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 13. Other differences may occur if the financial asset is subject to risks other than credit risk such as market risk.

32.2.1. Credit quality

The credit quality of loans, advances and other receivables is managed by the Group using internal classifications based on an assessment of the probability of default.

Items of risk are classified into one of two groups, 'non performing loans - impaired' and 'non performing loans - not impaired'.

(a) Non-performing loans - impaired

These are assets for which the Group has determined that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. In relation to loans for business purposes, all relevant circumstances surrounding the customer are considered before a loan is considered impaired.

(b) Non-performing loans - not impaired

These assets include all loans where repayments are past due by more than 90 days, but are not impaired.

Assets are classified as past due when any payment under the strict contractual terms has been missed or received late. The amount included as past due is the entire contractual balance, not just the overdue portion.

The following table provides information regarding the credit quality of the loans, advances and receivables of the Group. Performing loans represent loans that are neither past due more than 90 days nor impaired. Non-performing loans represent loans that are past due and not past due but impaired.

	Past due > 90 days	Not past due or past due ≤ 90 days
Impaired	Non-performing loans	
Not impaired		**Performing loans**

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
	$m	**$m**	**$m**	**$m**
Performing loans				
Loans, advances and other receivables	47,708	45,632	47,298	45,237
Loans with renegotiated terms	17	16	17	16
Collective allowance for impairment	(64)	(106)	(64)	(105)
	47,661	45,542	47,251	45,148
Non performing loans - not impaired				
Non performing - not impaired	434	320	433	319
Collective allowance for impairment	(38)	(39)	(37)	(36)
	396	281	396	283
Non performing loans - impaired				
Individually impaired	506	2,090	500	2,076
Specific allowance for impairment	(198)	(392)	(198)	(389)
	308	1,698	302	1,687
Total Loans, advances and other receivables	48,365	47,521	47,949	47,118

(c) Ageing analysis of loans, advances and other receivables which are past due but not impaired

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

Consolidated	Past due but not impaired					
	0-30 days $m	30-60 days $m	60-90 days $m	90-180 days $m	> 180 days $m	Total $m
2013						
Loans, advances and other receivables						
Retail banking	987	278	128	170	127	1,690
Business banking	134	27	93	122	15	391
	1,121	305	221	292	142	2,081
2012						
Loans, advances and other receivables						
Retail banking	877	256	114	103	134	1,484
Business banking	138	25	222	74	9	468
	1,015	281	336	177	143	1,952

Company	Past due but not impaired					
	0-30 days $m	30-60 days $m	60-90 days $m	90-180 days $m	> 180 days $m	Total $m
2013						
Loans, advances and other receivables						
Retail banking	987	278	128	170	127	1,690
Business banking	134	27	89	121	15	386
	1,121	305	217	291	142	2,076
2012						
Loans, advances and other receivables						
Retail banking	877	256	114	103	134	1,484
Business banking	138	25	215	73	9	460
	1,015	281	329	176	143	1,944

(d) Restructured loans

Restructured loans are facilities whereby the original contract terms have been modified due to the financial difficulties or hardship of the customer. Examples of restructuring may include:

- reduction in principal, interest or other payments due; and
- a restructured maturity date to extend the period of repayment.

The carrying value of loans that would otherwise be past due or impaired where terms have been renegotiated is disclosed in note 32.2.1.

32.2.2. Collateral management

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

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

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. With more than 77% (2012: 71%) of the Group's lending consumer in nature and 98% (2012: 98%) of that secured by residential property the Group's exposures are ultimately linked to factors impacting employment and residential property values.

The greatest risk in credit quality is in commercial property markets and deterioration in this sector may lead to increased defaults and write offs.

In the event of customer default, the Group can take possession of any security held as collateral against the outstanding claim. Any loan security may be held as mortgagee in possession while the Group seeks to realise its value through the sale of the property. Therefore the Group does not hold any real estate or other assets acquired through the repossession of collateral.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

An estimate of the fair value of collateral and other security enhancements held by the Group against 'Non-performing loans – Impaired' is $372 million (2012: $2,106 million). It has not been practicable to determine the fair value of collateral held as security against 'Non-performing loans – not impaired' or 'Performing loans'.

Collateral and other credit enhancements held by the Group mitigates the maximum credit exposure to credit risk as detailed by the concentration of credit risk tables in note 32.2.4.

32.2.3. Provision for impairment – specific and collective provisions

The Group, subject to APRA regulation, prepares Risk Management Strategies (**RMS**) approved by the SGL Board and submitted to APRA annually. The RMS describe the strategy adopted by the SGL Board and management for managing risk within APRA-regulated entities, including risk appetite, policies, procedures, management responsibilities and controls.

The credit provisions raised (specific and collective) represent management's best estimate of the losses incurred in the loan portfolio at balance date. The independent Credit Recovery Unit provides the Bank Credit Risk Committee with analysis of the carrying value of impaired loans and factors impacting recoverability. Impaired loans are reviewed by the Bank Credit Risk Committee to ensure judgements are appropriate and provisions for impairment are adequate.

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

32.2.3. Provision for impairment – specific and collective provisions (continued)

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

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

A collective provision for impairment is established against loan portfolios when events have occurred that have historically resulted in loan losses, but for which at balance date individual loans have not yet become impaired requiring individual (specific) provisioning. The collective provision is determined by identifying groups of loans with similar credit risk characteristics and loss events, and estimating the adverse impact of these events on future cash flows on the loans and subsequent potential losses that could arise.

The Group has determined its groups of loans with similar credit risk characteristics as follows:

- Retail loans, small business and non-credit risk rated business loans are grouped by product
- Credit risk rated business loans are grouped by the industry types, being agribusiness, commercial, development finance and property investment.

The key loss event identified for retail, small business and non-credit risk rated business loans is borrower in monetary default. The key loss events for credit risk rated business loans substantially align with existing credit review and management procedures to identify loans where deterioration has occurred in the underlying credit quality but which are currently not individually provisioned.

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

Each model determines an impairment loss based on the Group's historical experience, with adjustment made for current economic conditions as deemed necessary by the Bank Risk Committee. It is possible that the estimated impairment loss will differ from the actual losses to be incurred from the groups of identified impaired loans.

32.2.4. Concentration of credit risk

Concentration of credit risk is managed by client/counterparty and industry sector. Portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations.

Details of the aggregate number of the Group's corporate exposures (including direct and contingent exposures) which individually were greater than 5% of the Group's capital resources (Tier 1 and Tier 2 capital) are as follows:

Consolidated	2013 Number	2012 Number
25 percent and greater	5	4
20 percent to less than 25 percent	1	1
15 percent to less than 20 percent	-	-
10 percent to less than 15 percent	2	-
5 percent to less than 10 percent	5	5

A structure of industry concentration limits has been developed to monitor exposure levels within the risk-graded portfolio. These are tactical limits upon which business planning and developmental activity is based but also act as guidelines for portfolio concentration purposes.

32.2.4. Concentration of credit risk (continued)

The following table discloses the Group's financial assets by industry credit concentration and impairment status:

Consolidated

2013	Receivables due from other banks $m	Trading securities $m	Investment securities $m	Loans, advances and other receivables $m	Credit commitments[1] $m	Derivative instruments[1] $m	Total risk $m	Individually provisioned impaired assets $m	Past due >90 days but not impaired $m	Total not past due or impaired $m
Agribusiness	-	-	-	3,919	184	-	4,103	129	24	3,950
Construction and development	-	-	-	790	116	-	906	155	33	718
Financial services	1,460	3,462	6,640	560	173	516	12,811	-	-	12,811
Hospitality	-	-	-	1,017	46	-	1,063	39	23	1,001
Manufacturing	-	-	-	393	29	-	422	13	2	407
Professional services	-	-	-	259	10	-	269	3	2	264
Property investment	-	-	-	2,205	77	-	2,282	44	18	2,220
Real estate - Mortgage	-	-	-	37,092	1,224	-	38,316	29	290	37,997
Personal	-	-	-	462	8	-	470	-	7	463
Government and public authorities	-	-	-	1	-	-	1	-	-	1
Other commercial and industrial	-	-	-	1,967	163	-	2,130	94	35	2,001
Total gross credit risk	1,460	3,462	6,640	48,665	2,030	516	62,773	506	434	61,833
Impairment provisions							(300)	(198)	(38)	(64)
							62,473	308	396	61,769
2012										
Agribusiness	-	-	-	3,644	124	-	3,768	202	24	3,542
Construction and development	-	-	-	2,345	77	-	2,422	1,264	26	1,132
Financial services	2,044	4,787	6,308	601	35	512	14,287	-	-	14,287
Hospitality	-	-	-	1,093	35	-	1,128	117	4	1,007
Manufacturing	-	-	-	453	25	-	478	14	-	464
Professional services	-	-	-	286	10	-	296	4	4	288
Property investment	-	-	-	3,129	62	-	3,191	369	6	2,816
Real estate - Mortgage	-	-	-	34,029	1,053	-	35,082	26	233	34,823
Personal	-	-	-	393	7	-	400	-	4	396
Government and public authorities	-	-	-	1	-	-	1	-	-	1
Other commercial and industrial	-	-	-	2,084	90	-	2,174	94	19	2,061
Total gross credit risk	2,044	4,787	6,308	48,058	1,518	512	63,227	2,090	320	60,817
Impairment provisions							(537)	(392)	(39)	(106)
							62,690	1,698	281	60,711

Note

1. Credit commitments and Derivative instruments represent the credit equivalent amount of the Group's off balance sheet exposures calculated in accordance with APS 112.

32.2.4. Concentration of credit risk (continued)

Company

2013	Receivables due from other banks $m	Trading securities $m	Investment securities $m	Loans, advances and other receivables $m	Credit commitments[1] $m	Derivative instruments[1] $m	Total risk $m	Individually provisioned impaired assets $m	Past due >90 days but not impaired $m	Total not past due or impaired $m
Agribusiness	-	-	-	3,919	184	-	4,103	126	23	3,954
Construction and development	-	-	-	790	116	-	906	155	33	718
Financial services	1,460	3,462	6,640	560	173	516	12,811	-	-	12,811
Hospitality	-	-	-	1,017	46	-	1,063	39	23	1,001
Manufacturing	-	-	-	393	29	-	422	12	2	408
Professional services	-	-	-	259	10	-	269	3	1	265
Property investment	-	-	-	2,205	77	-	2,282	44	18	2,220
Real estate - Mortgage	-	-	-	37,092	1,224	-	38,316	29	290	37,997
Personal	-	-	-	462	8	-	470	-	7	463
Government and public authorities	-	-	-	1	-	-	1	-	-	1
Other commercial and industrial	-	-	-	1,550	163	-	1,713	92	36	1,585
Total gross credit risk	1,460	3,462	6,640	48,248	2,030	516	62,356	500	433	61,423
Impairment provisions							(299)	(198)	(37)	(64)
							62,057	302	396	61,359
2012										
Agribusiness	-	-	-	3,644	124	-	3,768	199	24	3,545
Construction and development	-	-	-	2,359	77	-	2,436	1,262	25	1,149
Financial services	2,044	4,787	6,294	601	35	512	14,273	-	-	14,273
Hospitality	-	-	-	1,093	35	-	1,128	117	4	1,007
Manufacturing	-	-	-	453	25	-	478	12	-	466
Professional services	-	-	-	286	10	-	296	2	3	291
Property investment	-	-	-	3,129	62	-	3,191	369	6	2,816
Real estate - Mortgage	-	-	-	34,029	1,053	-	35,082	26	233	34,823
Personal	-	-	-	393	7	-	400	-	4	396
Government and public authorities	-	-	-	1	-	-	1	-	-	1
Other commercial and industrial	-	-	-	1,660	90	-	1,750	89	20	1,641
Total gross credit risk	2,044	4,787	6,294	47,648	1,518	512	62,803	2,076	319	60,408
Impairment provisions							(530)	(389)	(36)	(105)
							62,273	1,687	283	60,303

Note

1. Credit commitments and Derivative instruments represent the credit equivalent amount of the Group's off balance sheet exposures calculated in accordance with APS 112.

32.3. Market risk

Market risk is the risk that changes in market prices or volatilities, such as interest rates, foreign exchange rates, equities and credit spreads will affect the Group's financial position. The Suncorp-Group Board Risk Committee has responsibility for the oversight of market risk, approving all interest and foreign exchange risk policies and reviewing relevant risk measures.

Executive management of interest rate and foreign exchange risk is delegated to the Bank ALCO who review risk measures and limits, provide guidance, endorse and monitor non-traded market risk strategy. Operational management of market risk is delegated to the Bank Treasury with the Trading section managing Trading risk and the Balance Sheet Management section managing Non-Traded risk.

All market risk is independently monitored against approved policies by the Market Risk division and reported to the Bank Chief Risk Officer.

32.3.1. Non-traded foreign exchange risk

Non-traded foreign exchange risk can arise from having non-AUD items in the banking book, thereby exposing current and future earnings to movements in foreign exchange rates. The objective of foreign currency exchange risk management is to minimise the impact on earnings of any such movements. The policy is to fully hedge any such exposure and accordingly minimise exposure to the risk. All offshore borrowing facilities arranged as part of the overall funding diversification process have been economically hedged in respect of their potential foreign exchange risk through the use of financial derivatives (refer note 13).

32.3.2. Traded market rate risk

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

Traded interest rate risk and foreign exchange risk is managed using a framework that includes value at risk (VaR) limits, stress testing, scenario analysis, sensitivity limits and stop loss limits.

No one risk metric provides a single sufficient overview of risk and as such VaR forms only a part of the risk framework. Supplementary risk measures, such as stress tests, sensitivity analysis and scenario analysis are undertaken to ensure a more complete overview of traded market risk for risk management. These measures are monitored and reported to the Bank Chief Risk Officer and Bank ALCO for management oversight.

VaR is a statistical estimate of potential loss using historically observed market volatility and correlations between different markets. The VaR model, based on a Monte Carlo simulation methodology, takes into account correlations between different positions and the potential for movements to offset one another within the individual portfolios. This method involves multiple revaluations of the trading books using the most recent two years of historical pricing shifts. The Group measures VaR at a 99% confidence level which implies that for every 100 days, the loss should not exceed the VaR on 99 of those days. The model assumes a one day holding period for all positions.

The VaR for the Group's total interest rate and foreign exchange trading activities for the year are as follows:

Consolidated						
		2013			2012	
Traded market risks	Interest Rate trading desk	Foreign Exchange trading desk	Combined risk [1]	Interest Rate trading desk	Foreign Exchange trading desk	Combined risk [1]
	$m	$m	$m	$m	$m	$m
VaR at end of the period	0.20	0.10	0.23	1.02	0.20	1.03
Maximum VaR during the period	0.58	0.66	0.80	1.34	0.94	1.32
Minimum VaR during the period	0.08	0.01	0.10	0.12	0.04	0.20
Average VaR during the period	0.21	0.23	0.31	0.36	0.42	0.58

Note

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

32.3.3. Non-traded interest rate risk - Interest Rate Risk in the Banking Book

Non-traded market risk, specifically interest rate risk in the banking book (IRRBB), is defined as all on balance sheet items and all off balance sheet items that create an interest rate risk exposure within the Group. It does not apply to market risk associated with trading book activities within the Group, which are covered in note 32.3.2 Traded market rate risk.

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

- **Repricing risk:** the risk of loss of earnings and/or economic value as a result of changes in the overall levels of interest rates. This risk arises from mismatches in the interest rate repricing dates of banking book items;
- **Yield Curve risk:** the risk of loss of earnings and/or economic value as a result of changes in the relative levels of interest rates at different tenors of the yield curve (that is a change in the slope or shape of the yield curve). This risk arises from mismatches in the interest rate repricing dates of banking book items;
- **Basis risk:** the risk of loss of earnings and/or economic value as a result of differences between the actual and expected interest margins on banking book items, where 'margin' means the difference between the customer interest rate on the items and the implied cost of funds for those items; and
- **Optionality risk:** the risk of loss of earnings and/or economic value as the result of the existence of stand-alone or embedded options, to the extent that the potential for those losses is not included in the measurement of repricing, yield curve or basis risks.

The main objective of IRRBB management is to maximise and stabilise net interest income and the net present value of the balance sheet over time, providing secure and sustainable net interest income in the long term.

The IRRBB framework was substantially enhanced in January 2012 as part of the transition towards Basel II internal model accreditation. The sensitivity analyses presented in notes 32.3.5, 32.3.7 and 32.3.8 are prepared on the following basis:

- For the full year ended 30 June 2013 and for the six months ended 30 June 2012 - Risk appetite is defined in terms of risk that can be taken inclusive of the capital benchmark at a transfer priced level. The risk management framework also incorporated behavioural modelling where contractual modelling was not appropriate, optionality risk and basis risk; and

- For the six months ended 31 December 2011 - Risk appetite was set at a Bank level (cash flows inclusive of customer margins), excluding the capital benchmark, and based on contractual pricing information irrespective of the behavioural profile of a position.

32.3.4. IRRBB – Net Interest Income Sensitivity (NIIS)

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

As a measure of shorter term sensitivity, Net Interest Income Sensitivity measures the sensitivity of the banking book earnings over the next 12 months to an instantaneous parallel and non-parallel shock to the yield curve.

32.3.5. NIIS Scenario analysis

- For the year ended 30 June 2013 and for the six months ended 30 June 2012 – NIIS is measured using a 2% parallel and non-parallel shock to the yield curve to determine the potential adverse change in net interest income in the ensuing 12 month period; and
- For the six months ended 31 December 2011 – the sensitivity analysis was prepared using a 1% parallel shock to the yield curve.

The results are prepared based on the IRRBB framework applicable to the respective financial period as described in note 32.3.3:

Consolidated			
IRRBB NIIS (over 12 months) to an adverse 2% parallel or non-parallel instantaneous shock to the yield curve		**Six-months ended**	
	Year ended 30 Jun 2013	**30 Jun 2012**	**31 Dec 2011**
	$m	**$m**	**$m**
Exposure at end of the period	(36)	(21)	(69)
Average monthly exposure during the period	(47)	(23)	(53)
High month exposure during the period	(66)	(38)	(69)
Low month exposure during the period	(23)	(10)	(29)

32.3.6. IRRBB - Present Value Sensitivity (PVS)

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

32.3.7. PVS Scenario Analysis

The following table indicates the potential adverse change in PVS of the Group's statement of financial position. The change in PVS is based on an adverse 2% parallel or non-parallel instantaneous shock to the yield curve.

For the six months ended 31 December 2011, the sensitivity analysis was prepared using a 1% adverse shock. This assumption is revised as part of the transition to Basel II internal model accreditation.

The results are prepared based on the IRRBB framework applicable to the respective financial period as described in note 32.3.3.

Consolidated			
IRRBB PVS to an adverse 2% parallel or non-parallel instantaneous shock to the yield curve		**Six-months ended**	
	Year ended 30 Jun 2013	**30 Jun 2012**	**31 Dec 2011**
	$m	**$m**	**$m**
Exposure at end of the period	(20)	(51)	(14)
Average monthly exposure during the period	(49)	(47)	(13)
High month exposure during the period	(94)	(57)	(14)
Low month exposure during the period	(8)	(29)	(12)

32.3.8. Value at Risk (VaR)

The Group also periodically prepares a value at risk type analysis to value asset, liability and off-balance sheet positions under a range of possible interest rate scenarios. Value at risk provides information on the potential adverse change that could occur to the present value of the banking book under a range of possible interest rate scenarios. The interest rate scenarios are derived from historical analysis of interest rates using a one month holding period, and the most adverse of either a 3 month or 2 year history set, at a 97.5% confidence level. A static balance sheet assumption is used.

The results are prepared based on the IRRBB framework applicable to the respective financial period as described in note 32.3.3:

Consolidated			
IRRBB - VaR – 1 month holding period, 97.5% confidence interval		**Six-months ended**	
	Year ended 30 Jun 2013	**30 Jun 2012**	**31 Dec 2011**
	$m	**$m**	**$m**
Exposure at end of the period	(14)	(17)	(3)
Average monthly exposure during the period	(10)	(15)	(5)
High month exposure during the period	(23)	(19)	(11)
Low month exposure during the period	(1)	(10)	(3)

32.4. Liquidity Risk

Liquidity risk is the risk that the Group has insufficient funds available to meet all its known and potential commitments on a going concern basis and in a name crisis situation.

Funding risk is the risk that the Group is unable to refinance itself to fund its business operations and growth plans.

The Group's liquidity risk is managed using a framework that includes going concern, name crisis scenario, LCR and NSFR analysis, minimum high quality liquid asset ratios, minimum liquid asset ratios, liquidity concentration limits and other supplementary management trigger limits.

The Group's funding risk is managed through the sourcing of retail deposits and long tem funding to provide the majority of core asset lending funds. Non-core liabilities are managed in line with the management run-off profile expectations to ensure a suitable commensurate run- off profile. Funding capacity is monitored and diversity in our funding portfolio is managed with a consideration for product, tenor, geography and customer concentrations.

The Board Risk Committee approves liquidity and funding policies and reviews relevant risk limits. Liquidity and funding policies are also subject to APRA review. Executive management of liquidity and funding risk is delegated to the Bank ALCO, which reviews risk measures and limits, endorses and monitors the overall Bank funding and liquidity strategy. Operational management of liquidity and funding risk is delegated to the Balance Sheet Management section of the Bank Treasury. Liquidity and funding risk is independently monitored against approved policies on a daily basis by the Market Risk division and reported to the Bank Chief Risk Officer.

32.4.1. Concentration of deposits and borrowings

Details of the concentration of financial liabilities used by the consolidated Group to raise funds are as follows:

Consolidated and Company	Note	2013	2012
		$m	$m
Australian funding sources			
Retail deposits		31,421	29,565
Wholesale funding		8,339	8,698
Covered bond programme		2,196	1,598
AUD domestic programme		3,698	3,836
Securitisation [1]		4,462	3,386
		50,116	47,083
Overseas wholesale funding sources			
FX Retail Deposits		132	305
European commercial paper and medium term note market		6,258	5,924
Subordinated note programme		-	496
United States 144a medium term note market		-	2,125
Securitisation[1]		340	453
		6,730	9,303
		56,846	56,386
Comprised of the following:			
Deposits and short-term borrowings	18	43,861	41,521
Securitisation liabilities	20	4,802	3,839
Debt issues	21	7,313	9,598
Subordinated notes	22	840	666
Preference shares	23	30	762
		56,846	56,386

Note

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

32.4.2. Maturity analysis

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

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

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the less than three months column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

The Group does not use this contractual maturity information as presented in the liquidity risk management of its liabilities. Additional factors as described above are considered when managing the maturity profiles of the business.

32.4.2. Maturity analysis (continued)

Consolidated

2013	Carrying amount $m	At call $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total Cash flows $m
Deposits and short-term borrowings	43,861	11,542	21,463	10,547	1,098	-	44,650
Payables due to other banks	213	213	-	-	-	-	213
Payables and other liabilities	755	-	755	-	-	-	755
Derivative financial instruments (trading)	198	-	198	-	-	-	198
Securitisation liabilities	4,802	-	349	979	3,067	1,053	5,448
Debt issues	7,313	-	1,175	2,351	5,359	-	8,885
Subordinated notes	840	-	9	32	1,074	-	1,115
Preference shares	30	-	31	-	-	-	31
	58,012	11,755	23,980	13,909	10,598	1,053	61,295
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		-	118	281	443	61	903
Contractual amounts receivable		-	(58)	(235)	(373)	(60)	(726)
	786	-	60	46	70	1	177
Off balance sheet positions							
Guarantees entered into in the normal course of business	-	317	-	-	-	-	317
Commitments to provide loans and advances	-	6,800	-	-	-	-	6,800
	-	7,117	-	-	-	-	7,117
2012							
Deposits and short-term borrowings	41,521	10,028	23,075	8,038	973	1	42,115
Payables due to other banks	64	64	-	-	-	-	64
Payables and other liabilities	691	-	691	-	-	-	691
Derivative financial instruments (trading)	356	-	356	-	-	-	356
Securitisation liabilities	3,839	-	284	925	2,425	757	4,391
Debt issues	9,598	-	1,518	1,938	6,922	-	10,378
Subordinated notes	666	-	2	512	216	-	730
Preference shares	762	-	9	767	36	-	812
	57,497	10,092	25,935	12,180	10,572	758	59,537
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		-	198	387	698	-	1,283
Contractual amounts receivable		-	(79)	(322)	(559)	-	(960)
	2,013	-	119	65	139	-	323
Off balance sheet positions							
Guarantees entered into in the normal course of business	-	161	-	-	-	-	161
Commitments to provide loans and advances	-	6,122	-	-	-	-	6,122
	-	6,283	-	-	-	-	6,283

32.4.2. Maturity analysis (continued)

Company

2013	Carrying amount $m	At call $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total Cash flows $m
Deposits and short-term borrowings	43,920	11,601	21,463	10,547	1,098	-	44,709
Payables due to other banks	213	213	-	-	-	-	213
Payables and other liabilities	738	-	738	-	-	-	738
Derivative financial instruments (trading)	198	-	198	-	-	-	198
Payables to subsidiaries [1]	4,716	-	263	979	3,067	1,053	5,362
Debt issues	7,313	-	324	3,203	5,359	-	8,886
Subordinated notes	840	-	9	32	1,074	-	1,115
Preference shares	30	-	31	-	-	-	31
	57,968	11,814	23,026	14,761	10,598	1,053	61,252
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		-	118	281	443	61	903
Contractual amounts receivable		-	(58)	(235)	(373)	(60)	(726)
	731	-	60	46	70	1	177
Off balance sheet positions							
Guarantees entered into in the normal course of business	-	317	-	-	-	-	317
Commitments to provide loans and advances	-	6,800	-	-	-	-	6,800
	-	7,117	-	-	-	-	7,117
2012							
Deposits and short-term borrowings	41,572	10,029	23,075	8,038	973	1	42,116
Payables due to other banks	64	64	-	-	-	-	64
Payables and other liabilities	671	-	671	-	-	-	671
Derivative financial instruments (trading)	356	-	356	-	-	-	356
Payables to subsidiaries [1]	3,928	-	373	925	2,425	757	4,480
Debt issues	9,604	-	1,518	1,938	6,922	-	10,378
Subordinated notes	666	-	2	512	216	-	730
Preference shares	762	-	9	767	36	-	812
	57,623	10,093	26,004	12,180	10,572	758	59,607
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		-	198	387	698	-	1,283
Contractual amounts receivable		-	(79)	(322)	(559)	-	(960)
	1,869	-	119	65	139	-	323
Off balance sheet positions							
Guarantees entered into in the normal course of business	-	161	-	-	-	-	161
Commitments to provide loans and advances	-	6,122	-	-	-	-	6,122
	-	6,283	-	-	-	-	6,283

Note

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

32.5. Use of derivative financial instruments and hedging

Derivatives are used by the Group to manage interest rate and foreign exchange risk.

The use of derivatives to mitigate market risk, interest rate risk and currency risk includes the use of exchange traded bill and bond futures, equity index futures, OTC forward foreign exchange contracts and interest rate and equity options.

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

As at 30 June 2013 there was no significant counterparty exposure to any one single entity, other than normal clearing house exposures associated with dealings through recognised exchanges.

Hedging of fluctuations in interest rates

The Group seeks to minimise volatility in net interest income through the use of interest rate derivatives, primarily vanilla interest rate swaps. The swaps are managed over a three year period which is approximately the average loan life.

At reporting date, the Group had no (2012: one) swap designated as a fair value hedge of a fixed rate note issue and 16 (2012: 13) swaps designated as fair value hedges of fixed rate bonds held. All other interest rate swaps designated as hedges are cash flow hedges. The swaps designated as cash flow hedges are hedges of either variable rate mortgages or variable rate short-term debt.

Hedging of fluctuations in foreign currency rates

The Group hedges its exposure to fluctuations in foreign exchange rates through the use of derivatives in the foreign exchange market. The currencies giving rise to this risk are primarily US Dollars, Euro and Pounds Sterling.

The Group hedges its offshore debt issues using cross currency interest rate swaps and foreign exchange swaps. In respect of other financial assets and liabilities held in currencies other than AUD, the Group ensures that the net exposure is kept to an acceptable level through participation in the spot and forward markets.

All cross currency interest rate swaps entered into by the 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.

The Group has elected to fair value its Euro Commercial Paper portfolio through the profit or loss on the basis that it is economically hedged by forward foreign exchange contracts. Both the changes in the fair value of the forward contracts and the debt issues are recognised. The fair value of forward foreign exchange contracts used as economic hedges of monetary liabilities in foreign currencies where hedge accounting is not applied as at 30 June 2013 was $327 million (30 June 2012: $70 million).

32.5. Use of derivative financial instruments and hedging (continued)

	Consolidated				Company			
	2013		2012		2013		2012	
	Fair value hedges $m	Cash flow hedges $m	Fair value hedges $m	Cash flow hedges $m	Fair value hedges $m	Cash flow hedges $m	Fair value hedges $m	Cash flow hedges $m
Hedging of fluctuations in interest rates								
Notional value of interest rate swaps designated as hedges	910	14,241	950	11,276	910	14,241	950	11,276
Fair value:								
net receive interest rate swaps	1	35	4	24	1	35	4	24
net pay interest rate swaps	(56)	(94)	(58)	(133)	(56)	(94)	(58)	(133)
	(55)	(59)	(54)	(109)	(55)	(59)	(54)	(109)

	Split approach 2013 $m	Split approach 2012 $m	Split approach 2013 $m	Split approach 2012 $m
Hedging of fluctuations in foreign exchange rates				
Notional value of cross currency swaps designated as hedges	3,659	6,979	3,263	6,376
Fair value:				
net receive cross currency swaps	63	72	63	72
net pay cross currency swaps	(636)	(1,822)	(581)	(1,678)
	(573)	(1,750)	(518)	(1,606)

The Group also hedges against the foreign currency exposure which results from the government guarantee expense. The underlying exposure is calculated as the present value of the 1% fee charged to the Group for those selected offshore liabilities, over the term of the life of the liabilities. The hedge is a cash flow hedge using foreign currency positions with foreign currency translation movements deferred to equity, and released to the profit or loss as the fee expense is incurred. As at 30 June 2013 the unrealised loss from foreign currency fluctuation deferred to equity was $4 million (2012: $14 million). During the current financial year the Group deferred to equity $nil (2012: $2 million), and released $10 million (2012: $21 million) of foreign currency fluctuations previously deferred to equity to the profit or loss.

32.5. Use of derivative financial instruments and hedging (continued)

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

Consolidated and Company	0 to 12 months	1 to 5 years	Over 5 years	Total expected cash flows
2013	**$m**	**$m**	**$m**	**$m**
Forecast receivable cash flows	366	527	-	893
Forecast payable cash flows	(405)	(560)	-	(965)
	(39)	(33)	-	(72)
2012				
Forecast receivable cash flows	282	329	-	611
Forecast payable cash flows	(339)	(378)	-	(717)
	(57)	(49)	-	(106)

33. Notes to the statements of cash flows

33.1. Reconciliation of cash flows from operating activities

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
	$m	**$m**	**$m**	**$m**
Profit for the year	(349)	22	(350)	39
Non-cash items				
Change in fair value of trading securities	(15)	(51)	(15)	(51)
Change in fair value of subordinated debt	-	(19)	-	(19)
Impairment losses on loans and advances	902	432	904	420
Depreciation/amortisation of property, plant and equipment and intangible assets	-	3	-	-
Profit on disposal of property, plant and equipment	-	(34)	-	-
Change in assets and liabilities				
Net movement in tax balances	83	(70)	99	(29)
(Increase) in other assets	8	12	(4)	25
Decrease (increase) in trading securities	1,340	216	1,340	217
Decrease (increase) in loans, advances and other receivables	(1,746)	(1,163)	(1,735)	(1,344)
(Increase) decrease in receivables and other financial assets	86	(91)	67	(113)
Increase in deposits and short-term borrowings and payables and other liabilities	2,365	2,261	3,249	2,752
(Decrease) increase in sundry creditors and accrued expenses	39	(172)	42	(232)
Net cash from operating activities	2,713	1,346	3,597	1,665

33.2. Reconciliation of cash and cash equivalents to the consolidated statement of cash flows

	Consolidated		Company	
	2013	2012	2013	2012
	$m	$m	$m	$m
Cash and cash equivalents at the end of the financial year in the statement of cash flows is represented by:				
Cash and cash equivalents	905	549	904	549
Add: Receivables due from other banks	1,460	2,044	1,460	2,044
Less: Payables due to other banks [1]	(213)	(64)	(213)	(64)
	2,152	2,529	2,151	2,529

Note

1. Includes cash received as collateral to support derivative asset positions of $157 million (2012: $23 million) in accordance with standard International Swaps and Derivatives Association (ISDA) agreements.

34. Financing arrangements

Consolidated and Company	2013	2013	2012	2012
	Program limit	Unused	Program limit	Unused
	$m	$m	$m	$m
The Group had the following debt programs outstanding at end of the financial year:				
USD $15 billion program	16,175	12,496	14,743	9,245
USD $5 billion program	5,392	2,581	4,914	2,509
USD $5 billion Covered Bond program	5,392	3,192	4,914	3,314
US144a MTN program	16,175	16,175	14,743	12,618
AUD TCD program	5,000	2,133	5,000	1,180
	48,134	36,577	44,314	28,866

35. Parent entity and subsidiaries

35.1. Ultimate parent entity

The Company's parent entity is SBGH Limited with the ultimate parent entity of the wholly-owned group being Suncorp Group Limited.

35.2. Significant subsidiaries of Suncorp-Metway Limited

Subsidiaries	Class of shares	Country of incorporation	Equity holdings 2013 %	Equity holdings 2012 %
APOLLO Series Trusts (various) [2]	Units	Australia	100	100
Graham & Company Limited	Ordinary	Australia	100	100
Polaris Data Centre Unit Trust	Units	Australia	100	100
SME Management Pty Limited	Ordinary	Australia	100	100
Suncorp Covered Bond Trust	Units	Australia	100	100
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	100	100
Suncorp Property Development Equity Fund #2 Unit Trust	Units	Australia	100	100
Taurus Trade Finance Pty Ltd	Ordinary	Australia	100	100

Notes

1. Non-operating and minor operating subsidiaries are excluded from the above list.
2. The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold as securities to the wholly owned Apollo Trusts (Trusts). As at 30 June 2013, the Company held interests in eleven Trusts (2012: eleven).

36. Investments in associates and joint venture entities

36.1. Investments in associates and joint venture entities

Consolidated	2013 Associates $m	2012 Associates $m	2013 Joint ventures $m	2012 Joint ventures $m
Summary of financial information of equity-accounted investees				
Total assets (100%)	-	-	-	-
Total liabilities (100%)	-	-	-	-
Revenues (100%)	-	-	-	-
Expenses (100%)	-	-	-	-
Share of net profit (loss) recognised	-	-	-	-

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

Consolidated	Principal activity	Ownership interest 2013 %	Ownership interest 2012 %
Joint venture assets			
Spring farm development	Property investment	50	50

36.2. Joint venture assets

Share of joint venture assets included in the consolidated statement of financial position are as follows:

Consolidated	Carrying amount 2013 $m	2012 $m
Other assets - development property	36	36
Total joint venture assets	36	36

37. Key management personnel (KMP) disclosures

As a wholly-owned subsidiary of SGL, the Company's key management personnel disclosures are consistent with those disclosed by SGL.

The Group has applied the exemption under AASB 124 *Related party disclosures* which exempts listed companies from providing remuneration disclosure in relation to their key management personnel (**KMP**) in the notes to the financial statements where this information is disclosed in the Directors' Report. Information regarding key management personnel remuneration and some equity instruments disclosure is included in the Remuneration Report of the Directors' Report.

37.1. KMP compensation

Consolidated	2013 $'000	2012 $'000
Short-term employee benefits	19,537	17,484
Long-term employee benefits	5,624	5,553
Post employment benefits	365	318
Equity compensation benefits	4,767	5,199
Termination benefits	-	241
	30,293	28,795

37.2. Loans to KMP and their related parties

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

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

Consolidated	Balance at 1 July 2012 $'000	Balance at 30 June 2013 $'000	Interest charged during the year $'000	Highest balance during the year $'000	Balance at 1 July 2011 $'000	Balance at 30 June 2012 $'000	Interest charged during the year $'000	Highest balance during the year $'000
Senior Executives								
M Milliner	1,089	-	42	-	1,355	1,089	75	1,399
A Revis	1,475	1,132	69	1,485	-	1,475	59	3,755
J Smith	900	900	50	900	900	900	54	900
R Stribling[1]	-	-	-	-	-	3,008	8	3,008

Note

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

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

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

Consolidated	Key management personnel 2013 $'000	Other related parties 2013 $'000	Key management personnel 2012 $'000	Other related parties 2012 $'000
Opening balance[1]	3,464	-	2,255	-
Closing balance	2,032	-	6,472	-
Interest charged	161	-	196	-
	Number	Number	Number	Number
Number of individuals at 30 June	2	-	4	-

Note

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

37.3. Movement in shares

Directors and executives of the Company and their related parties received normal distributions on these shares. Details of the directors' shareholdings in Suncorp Group Limited are set out in the Directors' Report.

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

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

Notes

1. The number of performance rights disclosed for the executive director and senior executives represents performance rights held by the trustee of the Executive Performance Share Plan (EPSP) and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles. The 1 October 2009 grant vested at 96% and the 3 May 2010 grant vested at 100% during the 2013 financial year.
2. For the executive director and senior executives, compensation includes shares held under the EPSP. These shares are recorded in the Suncorp Group's share register in the name of the EPSP Trustee and vest only when performance hurdles are met.
3. Appointed 1 July 2012. Shares and performance rights held upon appointment are shown in 'Other changes'.
4. Appointed 1 June 2013. Shares and performance rights held upon appointment are shown in 'Other changes'.

37.3. Movement in shares (continued)

	Balance 1 July 2011		1 July 2011 - 30 June 2012			Balance 30 June 2012	
	Ordinary shares	Performance rights [1]	Received as compensation [2]	Purchases (sales)	Other changes	Ordinary shares	Performance rights [1]
	Number	Number	Number	Number	Number	Number	Number
Directors							
Executive director							
P Snowball	66,123	900,000	-	21,210	-	87,333	900,000
Non-executive directors							
Dr Z Switkowski	201,599	-	-	-	-	201,599	-
I Atlas	-	-	-	6,370	-	6,370	-
W Bartlett	26,968	-	-	-	-	26,968	-
M Cameron	-	-	-	-	-	-	-
P Dwyer [4]	20,000	-	-	-	(20,000)	-	-
A Exel[5]	-	-	-	-	-	-	-
S Grimshaw [6]	24,314	-	-	-	(24,314)	-	-
E Kulk	20,173	-	-	-	-	20,173	-
Dr D McTaggart [3]	-	-	-	(3,922)	3,922	-	-
G Ricketts	23,654	-	-	1,196	-	24,850	-
J Story [7]	138,803	-	-	-	(138,803)	-	-
Senior Executives							
A Day	377	112,063	47,161	19	-	396	159,224
G Dransfield	-	39,078	31,441	-	-	-	70,519
D Foster	25,542	279,936	47,161	-	(23,883)	25,542	303,214
M Milliner	68,026	302,060	49,047	11,543	(33,037)	79,569	318,070
J Nesbitt	-	401,121	52,317	-	-	-	453,438
A Revis	5,093	58,920	33,641	257	-	5,350	92,561
J Smith	116,513	282,339	49,047	618	-	117,131	331,386
R Stribling[8]	10,000	66,079	37,729	-	-	10,000	103,808
G Summerhayes	-	203,801	43,262	-	-	-	247,063

Notes

1. The number of performance rights disclosed for the executive director and senior executives represents performance rights held by the trustee of the Executive Performance Share Plan (EPSP) and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles.
2. For the executive director and senior executives, compensation includes shares held under the EPSP. These shares are recorded in the Suncorp Group's share register in the name of the EPSP Trustee and vest only when performance hurdles are met. No shares vested during the 2012 financial year (2011: nil). The remuneration disclosure includes the fair value of the shares amortised over the vesting period.
3. Appointed 16 April 2012.
4. Left office on 28 February 2012. Shares held upon retirement are shown in 'Other changes'.
5. Appointed 27 June 2012.
6. Left office on 23 August 2011. Shares held upon retirement are shown in 'Other changes'.
7. Left office on 27 October 2011. Shares held upon retirement are shown in 'Other changes'.
8. Left office on 30 June 2012. Shares held on leaving office are not included in 1 July 2012 opening balance.

37.3. Movement in shares (continued)

Movements in the number of SGL Convertible Preference Shares (SUNPC) held directly, indirectly or beneficially by any of the KMP, including their related parties, are noted in the table below:

	Balance 1 July 2012	1 July 2012 – 30 June 2013	Balance 30 June 2013
	SUNPC	Purchases (sales)	SUNPC
	Number	Number	Number
Directors			
Non-executive directors			
E Kulk	-	3,000	3,000
Senior Executives			
C Herbert	-	400	400
A Lenahan	-	2,000	2,000
A Revis	-	1,500	1,500

Movements in the number of Suncorp-Metway Limited Convertible Preference Shares (CPS) held directly, indirectly or beneficially by each KMP, including their related parties, are noted in the table below:

	2013	2012
	Number	Number
Senior Executives		
D Foster [1]	-	90

Note

1. The Company repurchased the CPS from shareholders on the mandatory conversion date of 14 June 2013.

37.4. Other KMP transactions with the Company or its subsidiaries

Financial instrument transactions

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

Transactions other than financial instrument transactions

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

38. Other related party disclosures

38.1. Identity of related parties

The Company has a related party relationship with its subsidiaries (refer note 35), parent entity and its other controlled subsidiaries (refer note 35), associates and joint venture entities (refer note 36) and with its KMP (refer note 37).

38.2. Related party transactions within the Group

A number of banking transactions occur between the Company and related parties within the Group. These transactions occur in the normal course of business and are on terms equivalent with those made on an arm's length basis. These include loans, deposits and foreign currency transactions, upon which some fees and commissions may be earned. Other transactions between these related parties consisted of advances made and repaid, dividends received and paid and interest received and paid. All these transactions were on a normal commercial basis except that some advances may be interest free.

Company	2013 $'000	2012 $'000
Current amounts receivable (unsecured)		
Current amounts receivable	328,553	617,690
Loans receivable	17,081	15,147
	345,634	632,837
Current amounts payable (unsecured)		
Current amounts payable	4,716,605	3,985,428
Deposits and short-term borrowings	1,735,565	837,602
	6,452,170	4,823,030
Other income received or receivable		
Interest	7,101	25,767
Other income	255,952	238,496
Dividends	33,843	89,296
	296,896	353,559
Other expense paid or payable		
Interest	4,190	6,699
Operating expenses	243,798	402,047
Dividends	-	500,946
	247,988	909,692

38.3. Related party transactions with associates and joint venture entities

Transactions between the Group and associates and joint venture entities consisted of fees received and paid for information technology services, investment management services and property development finance facilities.

Company	2013 $'000	2012 $'000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:		
Other income received or due and receivable:		
Associates	-	-
Joint venture entities	56	3,979
	56	3,979
Other expenses paid or due and payable		
Associates	-	-
Joint venture entities	-	5,246
	-	5,246
Aggregate amounts receivable from, and payable to, each class of related parties at balance date:		
Receivables:		
Associates	-	-
Joint venture entities	-	2,263
	-	2,263
Payables:		
Associates	-	-
Joint venture entities	10	71

39. Auditors' remuneration

	Consolidated		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Audit and review services				
Audit and review of financial reports	1,183	1,382	915	1,100
Other regulatory audits	488	618	488	618
	1,671	2,000	1,403	1,718
Other services				
in relation to other assurance, actuarial, taxation and other non-audit services	616	269	339	153
Total auditors' remuneration	2,287	2,269	1,742	1,871

40. Subsequent events

On 16 July 2013, the Group repurchased Government guaranteed debt with a total carrying value of $851 million for $867 million resulting in a loss on repurchase of $16 million.

Other than as noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the 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 Suncorp-Metway Limited (the Company):

   (a) the financial statements and notes that are set out on pages 41 to 113 and the Remuneration Report in sections 2 to 3 in the Directors' Report, 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 2013 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*

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

2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Group Chief Executive Officer and Group Chief Financial Officer for the financial year ended 30 June 2013.

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

Signed in accordance with a resolution of the directors:

Dr Zygmunt E Switkowski	**Patrick J R Snowball**
Chairman	Managing Director and Group CEO

21 August 2013

KPMG

Independent auditor's report to the members of Suncorp-Metway Ltd

Report on the financial report

We have audited the accompanying financial report of Suncorp-Metway Ltd (the Company), which comprises the statements of financial position as at 30 June 2013, and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, notes 1 to 40 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 2.1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements 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 Suncorp-Metway Ltd 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 2013 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 2.1.

Report on the remuneration report

We have audited the Remuneration Report included in pages 14 to 36 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Suncorp-Metway Ltd for the year ended 30 June 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Paul M Reid
Partner

Brisbane

21 August 2013