Suncorp Life & Superannuation Limited

ABN: 87 073 979 530

Financial report

For the financial year ended 30 June 2015

Contents **Page**

The Directors present their report together with the financial report for Suncorp Life & Superannuation Limited (the **Company**) for the financial year ended 30 June 2015 and the auditor's report thereon.

Directors

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

Non-executive:

Dr Zygmunt E Switkowski AO (Chairman)	Director since 2005, Chairman since 2011
William J Bartlett	Director since 2003
Michael A Cameron	Director since 2012
Audette E Exel AO	Director since 2012
Ewoud J Kulk	Director since 2007
Christine F McLoughlin	Director appointed 11 February 2015
Dr Douglas F McTaggart	Director since 2012
Geoffrey T Ricketts CNZM	Director since 2007
Ilana R Atlas	Director since 2011, resigned 20 August 2014

Executive:

Patrick J R Snowball (Managing Director)	Director since 2009

Principal activities

The principal activities of the Company are the provision of life insurance, superannuation and investment products and related services to the retail, corporate and commercial sectors in Australia.

Dividends

No dividend was paid or declared during the financial year ended 30 June 2015. Dividends totalling $508.0 million were paid during the financial year ended 30 June 2014. Further details of dividends paid are set out in note 3 to the financial statements.

Operating and financial review

Profit after income tax for the financial year was $95.3 million (2014: loss after income tax of $95.2 million).

Life insurance premium income increased by $32.8 million to $780.3 million for this financial year and life insurance claims expense decreased by $50.6 million to $444.5 million due to favourable claims and lapse experience. Investment income decreased by $199.4 million to $535.5 million for the year due to lower returns from equity securities than the previous year. Operating expenses were marginally down reflecting the continued focus on cost management.

The Company issued an additional $35.0 million of ordinary shares to its parent entity as a result of an increase in target surplus capital effective from 30 June 2015.

The financial strength of the Company is reflected by the coverage of the Prudential Capital Requirement, as prescribed by the Australian Prudential Regulation Authority (**APRA**). The prescribed capital amount (**PCA**) coverage ratio for the statutory funds was 2.0 times as at 30 June 2015 (2014: 1.7 times).

Significant changes in state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Company that occurred during the financial year.

Events subsequent to reporting date

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

Directors' report (continued)

Likely developments

The Australian life industry is currently undergoing a once in a generation transformation, driven by the recent proposed regulatory reforms of the retail life insurance industry. This transformation will result in a more sustainable and vibrant industry with greater alignment between customers, advisers and manufacturers.

The Company is very well positioned to take advantage of the industry transformation, having already reset its strategy around the customer and re-based the balance sheet on a more conservative setting. The business is already seeing a return to a more consistent and stable underlying earnings profile.

There are no other substantial changes to operations expected in the coming financial year.

Environmental regulation

The operations of the Company are not subject to any particular and significant environmental regulations under any law of the Commonwealth of Australia or any of its states or territories.

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

Indemnification and insurance of officers

Indemnification

Under the Constitution of the ultimate parent entity, Suncorp Group Limited, each person who is or has been a director or officer of the Company is indemnified. 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, except where the liability arises out of conduct involving a lack of good faith.

The Constitution stipulates that Suncorp Group Limited will meet the full amount of such liabilities, including costs and expenses incurred in successfully defending civil or criminal proceedings or in connection with an application in relation to such proceedings, in which relief is granted under the *Corporations Act 2001*.

Insurance premiums

During the financial year ended 30 June 2015, Suncorp Group Limited 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. The directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the financial year ended 30 June 2015.

Rounding of amounts

The Company is a company of the kind referred to in Australian Securities & Investments Commission (**ASIC**) Class Order 98/100, dated 10 July 1988. In accordance with that Class Order, amounts in the directors' report and the financial report have been rounded to the nearest one hundred thousand dollars, unless otherwise indicated.

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

J. P. Switkowski

Dr Zygmunt E Switkowski AO
Director

Patrick J R Snowball
Managing Director and Group CEO

27 August 2015

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

To: the directors of Suncorp Life & Superannuation Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 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 Ruiz

Partner

Sydney

27 August 2015

Statement of comprehensive income

for the financial year ended 30 June 2015

	Note	2015	2014
		$m	$m
Revenue			
Insurance premium revenue		**780.3**	747.5
Reinsurance recoveries income		**215.1**	201.6
Interest income on			
- financial assets not at fair value through profit or loss		**7.5**	6.3
- financial assets at fair value through profit or loss		**114.8**	109.5
Net gains on financial assets at fair value through profit or loss		**301.0**	500.0
Dividend and trust distribution income		**112.2**	119.1
Fees and other income		**13.6**	11.2
Total revenue		**1,544.5**	1,695.2
Claims and expenses			
Claims expense		**(444.5)**	(495.1)
Change in life insurance contract policy liabilities		**(47.3)**	(549.8)
Change in life investment contract liabilities	9.1	**(298.1)**	(375.8)
Change in unvested policyholder benefits liabilities	9.1	**37.6**	58.0
Outwards reinsurance premium expense		**(246.0)**	(40.9)
Policy acquisition expenses		**(194.8)**	(190.9)
Policy maintenance expenses		**(160.0)**	(169.3)
Investment management expenses		**(22.1)**	(12.3)
Interest expense		**(5.1)**	(5.0)
Total claims and expenses		**(1,380.3)**	(1,781.1)
Profit (loss) before tax		**164.2**	(85.9)
Income tax expense	4.1	**(68.9)**	(9.3)
Profit (loss) for the financial year attributable to owners of the Company		**95.3**	(95.2)
Total comprehensive income (loss) for the financial year attributable to owners of the Company		**95.3**	(95.2)

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

Statement of financial position

as at 30 June 2015

	Note	2015	2014
		$m	$m
Assets			
Cash and cash equivalents	14.2	**434.9**	384.7
Derivatives	6	**8.8**	5.8
Investment securities	5	**6,399.6**	6,419.5
Receivables	7	**82.3**	117.8
Reinsurance recoveries receivable		**121.9**	93.9
Gross policy liabilities ceded under reinsurance	9.1	**465.7**	502.6
Deferred tax assets	4.2	**39.3**	23.9
Total assets		**7,552.5**	7,548.2
Liabilities			
Derivatives	6	**9.7**	6.9
Amounts due to reinsurers		**23.6**	11.4
Payables	8	**346.9**	316.3
Life insurance contract liabilities	9.1	**2,362.6**	2,452.5
Life investment contract liabilities	9.1	**3,214.1**	3,258.2
Unvested policyholder benefits liabilities	9.1	**267.7**	305.3
Subordinated notes	11	**100.0**	100.0
Total liabilities		**6,324.6**	6,450.6
Net assets		**1,227.9**	1,097.6
Equity			
Share capital	12	**698.7**	663.7
Retained profits		**529.2**	433.9
Total equity		**1,227.9**	1,097.6

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

Statement of changes in equity

for the financial year ended 30 June 2015

	Note	2015	2014
		$m	$m
Share capital			
Balance at the beginning of the financial year		**663.7**	663.7
Issue of share capital	12	**35.0**	-
Balance at the end of the financial year		**698.7**	663.7
Retained profits			
Balance at the beginning of the financial year		**433.9**	1,037.1
Profit (loss) for the financial year		**95.3**	(95.2)
Total comprehensive income (loss) for the financial year		**95.3**	(95.2)
Dividends paid	3	**-**	(508.0)
Balance at the end of the financial year		**529.2**	433.9
Total equity at the end of the financial year		**1,227.9**	1,097.6

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

Statement of cash flows

for the financial year ended 30 June 2015

	Note	2015	2014
		$m	$m
Cash flows used in operating activities			
Premiums received		**1,022.1**	1,047.2
Claims payments under policies paid		**(1,129.6)**	(1,140.4)
Reinsurance and other recoveries received		**187.1**	183.8
Reinsurance premiums paid		**(233.8)**	(44.8)
Investment income received		**227.6**	242.9
Fees and other operating income received		**4.0**	32.8
Operating expenses paid		**(385.0)**	(335.1)
Income tax paid		**(57.0)**	(22.6)
Net cash used in operating activities	14.1	**(364.6)**	(36.2)
Cash flows from investing activities			
Net proceeds from the sale and purchase of investment securities		**379.8**	499.1
Net cash from investing activities		**379.8**	499.1
Cash flows from (used in) financing activities			
Proceeds from issue of ordinary shares	12	**35.0**	-
Proceeds from issue of subordinated notes	11	**-**	100.0
Dividends paid on ordinary shares to owners of the company	3	**-**	(508.0)
Net cash from (used in) financing activities		**35.0**	(408.0)
Net increase in cash and cash equivalents		**50.2**	54.9
Cash and cash equivalents at the beginning of the financial year		**384.7**	329.8
Cash and cash equivalents at the end of the financial year	14.2	**434.9**	384.7

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

1. Reporting entity

Suncorp Life & Superannuation Limited (the **Company**) is a company domiciled in Australia. Its registered office is at Level 28, 266 George Street, Brisbane, QLD 4000.

The Company's parent entity is Suncorp Life Holdings Limited and the ultimate parent entity is Suncorp Group Limited (**SGL**).Suncorp Group is defined to be SGL and its subsidiaries.

The principal activities of the Company are the provision of life insurance, superannuation and investment products and related services to the retail, corporate and commercial sectors in Australia.

The financial statements for the financial year ended 30 June 2015 were authorised for issue by the Board of Directors on 27 August 2015.

2. Basis of preparation

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

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

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

The statement of financial position is prepared in a liquidity format. Amounts expected to be recovered or settled no more than twelve months after the reporting period, are classified as 'current' otherwise they are classified as 'non-current'.

Significant accounting policies applied in the preparation of these financial statements are set out in note 23.

Where necessary, comparatives have been restated to conform to changes in presentation in this financial report. The presentation of the financial statements and disclosure notes were changed to improve the quality of disclosures.

2.1. Statement of compliance

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

2.2. Use of estimates and judgments

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

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

- Life insurance contracts policy liabilities (refer note 9.2)
- Valuation of financial instruments and fair value hierarchy disclosures (refer note 16).

3. Dividends

	2015		2014	
	$ per share	$m	$ per share	$m
Dividend payments on ordinary shares				
Final dividend	-	-	1.2	158.0
Special dividend	-	-	0.8	100.0
Special dividend	-	-	1.6	207.0
Interim dividend	-	-	0.3	43.0
Total dividends on ordinary shares paid to owners of the Company	**-**	**-**	3.9	508.0

4. Income tax

4.1. Income tax expense

	2015	2014
	$m	$m
Profit (loss) before tax	**164.2**	(85.9)
Income tax expense (benefit) using the domestic corporation tax rate of 30% (2014: 30%)	**49.3**	(25.8)
Increase in income tax expense due to:		
Effect of policyholder tax adjustment	**24.0**	35.6
	73.3	9.8
Under provision in prior financial years	**(4.4)**	(0.5)
Income tax expense on profit (loss) before tax	**68.9**	9.3
Income tax expense recognised in profit (loss) consists of:		
Current tax expense		
Current year	**84.4**	51.2
Adjustments for prior financial years	**(0.1)**	3.5
	84.3	54.7
Deferred tax expense		
Origination and reversal of temporary differences	**(15.4)**	(45.4)
Total income tax expense	**68.9**	9.3

Included in income tax expense is $68.3 million (2014: $8.8 million) attributable to the statutory funds. This is partly determined on a product basis and partly determined on a profit basis. The income tax expense has been determined after aggregating various classes of business, each with different tax rates. The rates of taxation applicable to the taxable income of significant classes of business are as follows:

	2015	2014
	%	%
Applicable tax rates for classes of business		
Annuity and pension business [(1)]	**Exempt**	Exempt
Complying superannuation business [(2)]	**15**	15
Ordinary class of business	**30**	30
Shareholder funds	**30**	30

Notes

1. Segregated Exempt Assets (SEA)
2. Includes Virtual Pooled Superannuation Trust (VPST)

Basis of income tax apportionment

A notional income tax expense is calculated for each product as if the product was invested within a standalone statutory fund. The difference between the notional and actual tax expense is apportioned to products having regard to their contribution to the difference.

4.2. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2015	2014	2015	2014	2015	2014
	Deferred tax assets		Deferred tax liabilities		Net	
	$m	$m	$m	$m	$m	$m
Investment securities	**-**	-	**48.5**	52.9	**(48.5)**	(52.9)
Gross policy liabilities	**81.3**	71.7	**-**	-	**81.3**	71.7
Other items	**6.5**	5.1	**-**	-	**6.5**	5.1
Deferred tax assets and liabilities	**87.8**	76.8	**48.5**	52.9	**39.3**	23.9
Set-off of tax	**(48.5)**	(52.9)	**(48.5)**	(52.9)	**-**	-
Net deferred tax assets	**39.3**	23.9	**-**	-	**39.3**	23.9

5. Investment securities

	2015	2014
	$m	$m
Financial assets designated at fair value through profit or loss		
Interest-bearing securities	**550.6**	608.5
Unit trusts:		
Equity securities	**3,120.8**	3,245.2
Interest-bearing securities	**2,535.9**	2,389.5
Property	**177.6**	158.9
Other	**14.7**	17.4
Total investment securities	**6,399.6**	**6,419.5**

6. Derivative financial instruments

	2015			2014		
	Notional	Fair value		Notional	Fair value	
	value	Asset	Liability	value	Asset	Liability
	$m	$m	$m	$m	$m	$m
Interest rate-related contracts						
Interest rate swaps	**599.7**	**6.7**	**6.7**	253.1	3.5	3.4
Interest rate futures	**263.1**	**0.3**	**0.1**	601.2	0.9	2.3
	862.8	**7.0**	**6.8**	854.3	4.4	5.7
Exchange rate-related contracts						
Forward foreign exchange contracts	**364.3**	**0.5**	**1.2**	296.4	1.3	1.2
Cross currency swaps	**2.6**	**-**	**0.8**	-	-	-
	366.9	**0.5**	**2.0**	296.4	1.3	1.2
Equity contracts						
Equity futures	**172.6**	**1.3**	**0.9**	56.9	0.1	-
Listed property trust futures	**2.7**	**-**	**-**	-	-	-
	175.3	**1.3**	**0.9**	56.9	0.1	-
Total derivative exposures	**1,405.0**	**8.8**	**9.7**	1,207.6	5.8	6.9

Derivatives are used in investments as well as hedging of fluctuations in foreign exchange rates, interest rates and equity and property prices. To prevent derivatives being used as a source of gearing, all derivatives have to be wholly or partly cash covered depending on the type of risk undertaken. The investment mandates specifically prohibit the use of derivatives for leveraged trading. 'Leverage' here is defined as creating a portfolio which would have sensitivity to an underlying economic or financial variable which is greater than could be achieved using only physical securities.

Derivatives are used within the investment portfolios where it is more efficient to use derivatives rather than physical securities. The use of derivatives is consistent with the objectives of the overall investment strategies and is one of the means by which these strategies are implemented.

7. Receivables

	2015	2014
	$m	$m
Investment receivable	**20.2**	72.4
Premiums receivable	**9.2**	3.1
Policyholders loans	**17.5**	18.4
Other receivables	**35.4**	23.9
Total receivables – current	**82.3**	117.8

8. Payables

	2015	2014
	$m	$m
Policy claims in process of settlement	**168.3**	164.5
Sundry creditors and accrued expenses	**58.8**	61.8
Premiums in advance	**7.1**	5.6
Amount due to related parties	**97.3**	62.0
Other payables	**15.4**	22.4
Total payables – current	**346.9**	316.3

9. Life policy liabilities

9.1. Net policy liabilities

The following table shows the movements in net life insurance and investment contract liabilities.

	Liability				Asset	
	Insurance contracts $m	Unvested policy-holder benefits $m	Investment contracts $m	Gross policy liabilities $m	Gross policy liabilities ceded under reinsurance $m	Net policy liabilities $m
Balance as at 30 June 2013	1,926.6	363.3	3,190.8	5,480.7	436.7	5,044.0
Movement in policy liabilities recognised in profit or loss	615.7	-	375.8	991.5	65.9	925.6
Contributions and premiums recognised in policy liabilities	89.0	-	196.8	285.8	-	285.8
Withdrawals and claims expense recognised in policy liabilities	(178.8)	-	(505.2)	(684.0)	-	(684.0)
Movement in unvested policyholder benefits	-	(58.0)	-	(58.0)	-	(58.0)
Balance as at 30 June 2014	**2,452.5**	**305.3**	**3,258.2**	**6,016.0**	**502.6**	**5,513.4**
Movement in policy liabilities recognised in profit or loss	**10.4**	**-**	**298.1**	**308.5**	**(36.9)**	**345.4**
Contributions and premiums recognised in policy liabilities	**100.6**	**-**	**145.8**	**246.4**	**-**	**246.4**
Withdrawals and claims expense recognised in policy liabilities	**(200.9)**	**-**	**(488.0)**	**(688.9)**	**-**	**(688.9)**
Movement in unvested policyholder benefits	**-**	**(37.6)**	**-**	**(37.6)**	**-**	**(37.6)**
Balance as at 30 June 2015	**2,362.6**	**267.7**	**3,214.1**	**5,844.4**	**465.7**	**5,378.7**

9.1. Net policy liabilities (continued)

The following table summarises the maturity profile based on the estimated timing of discounted cash outflows.

	Carrying amount $m	1 year or less $m	1 to 5 years $m	Over 5 years $m	No term $m	Investment linked $m	Total cash flows $m
2015							
Life insurance contract liabilities (net of reinsurance)	**1,896.9**	**151.5**	**577.9**	**1,167.5**	**-**	**-**	**1,896.9**
Life investment contract liabilities	**3,214.1**	**3.1**	**7.3**	**12.9**	**-**	**3,190.8**	**3,214.1**
Unvested policyholder benefits liabilities	**267.7**	**-**	**-**	**-**	**267.7**	**-**	**267.7**
Total	**5,378.7**	**154.6**	**585.2**	**1,180.4**	**267.7**	**3,190.8**	**5,378.7**
2014							
Life insurance contract liabilities (net of reinsurance)	1,949.9	128.2	566.8	1,254.9	-	-	1,949.9
Life investment contract liabilities	3,258.2	4.5	11.5	8.9	-	3,233.3	3,258.2
Unvested policyholder benefits liabilities	305.3	-	-	-	305.3	-	305.3
Total	5,513.4	132.7	578.3	1,263.8	305.3	3,233.3	5,513.4

9.2. Life policy liability estimation process

Policy liabilities in Australia have been calculated in accordance with APRA Prudential Standard LPS 340 *Valuation of Policy Liabilities* issued under section 230A(1) of the *Life Insurance Act 1995 (**Life Act**).*

The policy liability calculations are performed by actuarial personnel, using policy data, and are approved by the Appointed Actuary, Mr Joshua Corrigan (Fellow of the Actuaries Institute of Australia).

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

Life insurance contract policy liabilities are determined to cover future expected claims, expenses and premiums, and ensure a release of profits as services are provided under the contracts. The profits release is controlled by a profit carrier.

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

Business type	Profit carrier
Conventional participating	Supportable bonuses
Participating and non-participating investment account and allocated pension	Interest credits
Lump sum risk and accidental cash back	Expected premium payments
Disability income	Expected benefit/claims payments
Other	Expected benefit/claim payments

9.3. Actuarial assumptions, judgments and estimates used in calculating life insurance contract liabilities

Experience is examined in detail on at least an annual basis, with assumptions set having regard to the Company's experience, observed trends and future outlook.The key factors affecting the determination of the policy liabilities and the critical assumptions and judgments made, as well as significant changes since 2014 (if applicable) are set out below:

- Investment earnings and discount rates: based on ten-year Australian Government bond yields. Adjustments made as necessary for participating contracts.
- Voluntary discontinuance: rates are based upon recent internal investigations. Allowance is also made for cash withdrawals.
- Mortality: individual risk products: rates are based upon recent internal investigations. Rates are expressed as a multiple of standard mortality tables developed by the local actuarial bodies.
- Mortality: annuitants: rates are based upon recent internal investigations. Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments for assumed future age-related improvements. Table IM/IF80 was developed by the Institute and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982.
- Morbidity: rates are based on recent internal investigations. For total and permanent disablement policies, rates are expressed as a multiple of industry and population experience. For trauma policies, assumed incidence rates are based on Australian population statistics with adjustments to reflect experience and policy conditions.

The following table shows the ranges of the adjustments to the base industry tables, ranges of investment earnings and actual annual lapse rates for 2014 and 2015.

	2015	2014
	%	%
Investment earnings pre-tax for participating business	**4.0 - 4.7**	4.5 - 5.2
Risk free pre-tax discount rates for non-participating business	**2.0 - 3.8**	2.5 - 4.0
Annual lapse rate (voluntary discontinuance)	**4 - 40**	4 - 40
Mortality – individual risk products adjustment	**50 - 121**	50 - 121
Mortality – annuitants adjustment	**60**	60
Future improvements in mortality – annuitants adjustment	**97**	97
Group claims ratio	**90 - 120**	95 - 130

9.4. Life insurance contract policy liabilities

	Current Basis (4) 2015	Previous Basis (5) 2015	2014 (6)
	$m	$m	$m
Best estimate liability			
Value of future policy benefits (1)	**4,425.9**	**4,285.6**	4,107.4
Value of future expenses	**1,724.9**	**1,580.9**	1,522.2
Value of unrecouped acquisition expenses	**(961.5)**	**(958.7)**	(868.8)
Balance of future premiums	**(4,046.1)**	**(3,822.1)**	(3,773.7)
	1,143.2	**1,085.7**	987.1
Value of future profits			
Policyholder bonuses (2)	**413.4**	**430.8**	570.5
Shareholder profit margins	**232.3**	**281.6**	250.6
	645.7	**712.4**	821.1
Total value of declared bonuses (3)	**108.0**	**108.0**	141.7
Total net insurance policy liabilities	**1,896.9**	**1,906.1**	1,949.9
Gross policy ceded under reinsurance	**465.7**	**489.1**	502.6
Gross insurance contract liabilities	**2,362.6**	**2,395.2**	2,452.5
Policy liabilities subject to capital guarantee	**1,588.0**	**1,566.2**	1,438.5

Notes

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

9.5. Sensitivity analysis on life insurance contract liabilities

The following table illustrates the impact in the current period of changes in key assumptions as at 30 June 2015 with all other variables remaining constant. The change in liability and profit (loss) after tax are shown net and gross of reinsurance. There is no impact to equity reserves.

		Change in life insurance contract policy liabilities		Profit (loss) after tax	
2015		Net of reinsurance	Gross of reinsurance	Net of reinsurance	Gross of reinsurance
Variable	**Change [1]**	$m	$m	$m	$m
Maintenance expenses	10% increase	**13.5**	**16.0**	**(9.4)**	**(11.2)**
Mortality and lump sum morbidity	10% increase	**79.8**	**217.5**	**(55.8)**	**(152.3)**
Morbidity – disability income	10% increase in incidence and decrease in recovery rates	**88.3**	**261.5**	**(61.8)**	**(183.1)**
Discontinuance rates	10% increase	**97.7**	**94.9**	**(68.4)**	**(66.4)**
2014					
Maintenance expenses	10% increase	19.9	19.9	(13.9)	(13.9)
Mortality and lump sum morbidity	10% increase	96.1	200.0	(67.2)	(140.0)
Morbidity – disability income	10% increase in incidence and decrease in recovery rates	119.4	323.8	(83.6)	(226.6)
Discontinuance rates	10% increase	107.2	38.2	(75.1)	(26.7)

Note

1. Sensitivity changes are relative to current best estimate assumptions.

The following table illustrates the effects of changes in actuarial assumptions (ignoring reallocation of provisions to policy liabilities and modelling changes) from 30 June 2014 to 30 June 2015.

Assumption category	Future profit margins (shareholder) increase/decrease)	Policy liabilities increase/(decrease)
	$m	$m
Discount and earning rate (risk business)	**9.6**	**(16.4)**
Discount and earning rate (participating business)	**(4.4)**	**-**
Mortality and morbidity lump sum	**-**	**(4.9)**
Morbidity income	**-**	**(11.2)**
Maintenance expense	**(52.0)**	**(5.0)**
Total	**(46.8)**	**(37.5)**

Note

1. Numbers shown are gross of tax, except for the effect on future profit margins for risk business.

10. Other life insurance and investment contract disclosures

10.1. Summary of shareholder's interests

A policyholder is one who holds a policy with the Company. The shareholder represents the Company's interest in the statutory funds. A statutory fund is a fund of a life company that relates solely to the life insurance business of that life company as defined by the *Life Act.*

	2015	2014	2015	2014	2015	2014
	Statutory funds		Shareholder fund		Total	
	$m	$m	$m	$m	$m	$m
Shareholder's retained profits at the beginning of the financial year	**486.1**	1,080.6	**(52.2)**	(43.5)	**433.9**	1,037.1
Operating profit (loss) after tax	**94.0**	(96.4)	**1.3**	1.2	**95.3**	(95.2)
Transfers of profits between funds	**2.0**	(498.1)	**(2.0)**	498.1	**-**	-
Dividends paid (note 3)	**-**	-	**-**	(508.0)	**-**	(508.0)
Shareholder's retained profits at the end of the financial year	**582.1**	486.1	**(52.9)**	(52.2)	**529.2**	433.9
Share capital (note 12)	**-**	-	**698.7**	663.7	**698.7**	663.7
Capital transfers to statutory funds	**644.6**	609.6	**(644.6)**	(609.6)	**-**	-
Total shareholder's equity (note 15.4)	**1,226.7**	1,095.7	**1.2**	1.9	**1,227.9**	1,097.6
Components of shareholder's interests in statutory funds:						
Shareholder's retained profits – participating business	**114.7**	101.7				
Shareholder's retained profits – non-participating business	**467.4**	384.4				
Shareholder's capital	**644.6**	609.6				
	1,226.7	1,095.7				

Shareholder's access to the retained profits and shareholder's capital in the statutory funds is restricted to the extent that these monies are required to meet prescribed minimum and target surplus requirements.

10.2. Allocation of operating profit

The general principles adopted in the allocation of operating profit to participating policyholders and the shareholder, which are in accordance with the *Life Act* and the Company's Articles of Association, are as follows:

- ***Participating business***

  All profits, including net investment returns on policyholders' retained profits and shareholder participating retained profits, are allocated 80 percent to policyholders and 20 percent to the shareholder.

- ***Non-participating business***

  All profits, including net investment returns on shareholder capital and shareholder non-participating retained profits, are allocated to the shareholder.

10.3. Details of operating profits

	2015	2014	2015	2014	2015	2014
	Policyholders' interest		Shareholder's interest		Total statutory funds	
	$m	$m	$m	$m	$m	$m
Operating profit (loss) after tax	**-**	-	**94.0**	(96.4)	**94.0**	(96.4)
Bonuses provided for or paid in the current period:						
Decrease in policyholder retained profits	**(37.6)**	(58.0)	**-**	-	**(37.6)**	(58.0)
Bonus declared and paid	**108.0**	145.4	**-**	-	**108.0**	145.4
***Life Act* operating profit after tax**	**70.4**	87.4	**94.0**	(96.4)	**164.4**	(9.0)
Sources of the operating profit:						
From non-investment linked business:						
Participating business	**70.4**	87.4	**17.6**	21.9	**88.0**	109.3
Non-participating business	**-**	-	**65.2**	(119.5)	**65.2**	(119.5)
From investment linked business:						
Non-participating business	**-**	-	**11.2**	1.2	**11.2**	1.2
	70.4	87.4	**94.0**	(96.4)	**164.4**	(9.0)

10.4. Distribution of retained profits

The general principles adopted in the distribution of retained profits to participating policyholders and the shareholder in accordance with the requirements in Section 62 of the *Life Act* are as follows:

- Shareholder's retained profits in a statutory fund may be transferred to the shareholder fund subject to the statutory fund's capital requirements being maintained and the shareholder's retained profits from participating business being at least 25 percent of policyholders' retained profits.
- Distributions of profits to participating policyholders are made in the form relevant to the type of policy. Conventional business profits are distributed by way of reversionary and terminal bonuses and investment account business profits are distributed by way of crediting interest to policyholders.
- Bonuses and interest credit for individual product lines are determined by the Company on the principle of the equitable treatment of participating policyholders.

10.5. Details of retained profits

	2015	2014	2015	2014	2015	2014
	Policyholders' interest		Shareholder's interest		Total statutory funds	
	$m	$m	$m	$m	$m	$m
Retained profits at the beginning of the financial year	**-**	-	**486.1**	1,080.6	**486.1**	1,080.6
Liability for unvested policyholder benefits (note 9.1)	**305.3**	363.3	**-**	-	**305.3**	363.3
***Life Act* retained profits at the beginning of the financial year**	**305.3**	363.3	**486.1**	1,080.6	**791.4**	1,443.9
Life Act operating profit after income tax (note 10.3)	**70.4**	87.4	**94.0**	(96.4)	**164.4**	(9.0)
Transfer from (to) shareholder's fund from non-participating business (note 10.1)	**-**	-	**2.0**	(498.1)	**2.0**	(498.1)
Provision for bonuses to participating policyholders	**(108.0)**	(145.4)	**-**	-	**(108.0)**	(145.4)
***Life Act* retained profits at the end of the financial year**	**267.7**	305.3	**582.1**	486.1	**849.8**	791.4
Policyholder retained profits at the end of the financial year (note 9.1)	**(267.7)**	(305.3)	**-**	-	**(267.7)**	(305.3)
Retained profits at the end of the financial year	**-**	-	**582.1**	486.1	**582.1**	486.1
Components of *Life Act* retained profits at the end of the financial year:						
Policyholders' interests (note 9.1)	**267.7**	305.3	**-**	-	**267.7**	305.3
Shareholder's interests in participating business	**-**	-	**114.7**	101.7	**114.7**	101.7
Shareholder's interests in non-participating business	**-**	-	**467.4**	384.4	**467.4**	384.4
	267.7	305.3	**582.1**	486.1	**849.8**	791.4

10.6. Statement of sources of operating profit

	2015			2014		
	Life insurance contracts $m	Other contracts $m	Total $m	Life insurance contracts $m	Other contracts $m	Total $m
***Life Act* shareholder's operating profit (loss) after tax in the statutory funds**						
Represented by:						
Investment earnings on shareholder's retained profits and capital	**47.6**	**0.6**	**48.2**	65.4	0.5	65.9
Emergence of shareholder's planned profits	**34.7**	**-**	**34.7**	46.9	-	46.9
Experience profit (loss)	**6.6**	**-**	**6.6**	(67.7)	-	(67.7)
Losses capitalised	**(6.1)**	**-**	**(6.1)**	(142.2)	-	(142.2)
Management services profit	**-**	**10.6**	**10.6**	-	0.7	0.7
	82.8	**11.2**	**94.0**	(97.6)	1.2	(96.4)
***Life Act* policyholders' operating profit after tax in the statutory funds**						
Represented by:						
Investment earnings on retained profits	**14.0**	**-**	**14.0**	23.7	-	23.7
Emergence of policyholder planned profits	**60.3**	**-**	**60.3**	61.7	-	61.7
Experience (loss) profit	**(4.1)**	**-**	**(4.1)**	2.0	-	2.0
Losses reversed	**0.2**	**-**	**0.2**	-	-	-
	70.4	**-**	**70.4**	87.4	-	87.4

Note:

1. Total cumulative capitalised losses carried forward at 30 June 2015 was $179 million (30 June 2014: $162 million).
2. Life Act shareholder's operating profit (loss) after tax includes profit after tax from shareholder's fund $1.3 million for the financial year 2015.

11. Subordinated notes

	Due date	First call	2015 $m	2014 $m
Financial liabilities at amortised cost				
Floating rate notes	22 August 2023	22 August 2018	**100.0**	100.0
Total subordinated notes – non-current			**100.0**	100.0

The subordinated notes were issued by the Company with a maturity of 10 years, first callable option of the issuer after 5 years.

The notes are unsecured obligations of the Company. Payments of principal and interest on the notes have priority over the Company's dividend payments only. In the event of the winding-up of the Company, the rights of the note holders will rank in preference only to the rights of ordinary shareholders.

12. Share capital

	2015		2014	
	No of shares	$m	No of shares	$m
Balance as at 1 July	**129,283,248**	**663.7**	129,283,248	663.7
Issue of share capital	**3,500,000**	**35.0**	-	-
Balance as at 30 June	**132,783,248**	**698.7**	129,283,248	663.7

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

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

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

13. Capital management

The Company is part of the Suncorp Group. The capital management strategy of the Suncorp Group is to optimise shareholder value by managing the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to maintain and grow the business, in accordance with risk appetite. The Suncorp Group's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Suncorp Group as a whole, and each regulated entity, is capitalised to meet internal and external requirements.

The Company is required to hold prudential reserves over and above its life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns.

All life insurance companies that conduct insurance business in Australia are authorised by APRA and are subject to Prescribed Capital Amounts (**PCA**). The PCA is the minimum level of capital that the regulator deems must be held to meet policyholder obligations. The Company calculates the PCA using the standardised frameworks in accordance with the relevant APRA Prudential Standards.

In addition to the regulatory capital requirements, the Company maintains a target surplus providing additional capital buffer against adverse events. The Company uses internal capital models to determine its target surplus, with the models reflecting the various key risks of the business. These mainly include the risk of adverse asset movements relative to the liabilities and of worse than expected claims costs.

The PCA requirements and coverage ratio of the Company are as follows:

2015		Statutory Fund No. 1 $m	Statutory Fund No. 2 $m	Total Statutory Funds $m	Share-holder Fund $m	Total $m
Capital base						
Net assets as per the *Life Act*		**1,209.0**	**17.7**	**1,226.7**	**1.2**	**1,227.9**
Total regulatory adjustments to net assets		**(975.1)**	**-**	**(975.1)**	**-**	**(975.1)**
Tier 2 capital		**100.0**	**-**	**100.0**	**-**	**100.0**
Total capital base	(A)	**333.9**	**17.7**	**351.6**	**1.2**	**352.8**
Prescibed capital						
Insurance risk capital charge		**45.8**	**-**	**45.8**	**-**	**45.8**
Asset risk charge		**67.0**	**-**	**67.0**	**-**	**67.0**
Operational risk charge		**29.6**	**8.4**	**38.0**	**-**	**38.0**
Less aggregation benefit		**(24.4)**	**-**	**(24.4)**	**-**	**(24.4)**
Combined stress scenario adjustment		**45.6**	**-**	**45.6**	**-**	**45.6**
Total PCA	(B)	**163.6**	**8.4**	**172.0**	**-**	**172.0**
PCA coverage ratios (times)	(A/B)	**2.0**	**2.1**	**2.0**	**50.2**	**2.1**

2014		Statutory Fund No. 1 $m	Statutory Fund No. 2 $m	Total Statutory Funds $m	Share-holder Fund $m	Total $m
Capital base						
Net assets as per the *Life Act*		1,076.2	19.5	1,095.7	1.9	1,097.6
Total regulatory adjustments to net assets		(849.7)	-	(849.7)	-	(849.7)
Tier 2 capital		100.0	-	100.0	-	100.0
Total capital base	(A)	326.5	19.5	346.0	1.9	347.9
Prescibed capital						
Insurance risk capital charge		54.5	-	54.5	-	54.5
Asset risk charge		74.9	-	74.9	-	74.9
Operational risk charge		28.2	8.1	36.3	-	36.3
Less aggregation benefit		(28.3)	-	(28.3)	-	(28.3)
Combined stress scenario adjustment		61.2	-	61.2	-	61.2
Total PCA	(B)	190.5	8.1	198.6	-	198.6
PCA coverage ratios (times)	(A/B)	1.7	2.4	1.7	371.6	1.8

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

14. Notes to statement of cash flows

14.1. Reconciliation of cash flows from operating activities

	2015	2014
	$m	$m
Profit (loss) for the financial year	**95.3**	(95.2)
Non-cash items		
Changes in fair value of investment securities and derivatives	**(301.0)**	(500.0)
Change in assets and liabilities		
(Increase) decrease in receivables	**(23.6)**	52.9
Increase in reinsurance recoveries receivable	**(28.0)**	(17.8)
Increase in payables	**30.6**	103.8
Increase (decrease) in amounts due to reinsurers	**12.2**	(3.9)
(Decrease) increase in net policy liabilities	**(97.1)**	527.4
Decrease in unvested policyholder benefits liabilities	**(37.6)**	(58.0)
Net movement in tax assets and liabilities	**(15.4)**	(45.4)
Net cash flow used in operating activities	**(364.6)**	(36.2)

14.2. Reconciliation of cash and cash equivalents to the statement of cash flows

	2015	2014
	$m	$m
Cash at bank	**256.5**	167.8
Cash held directly through unit trusts	**166.7**	166.4
Other money market placements	**11.7**	50.5
Total cash and cash equivalents	**434.9**	384.7

15. Statutory fund segment information

15.1. Restrictions on assets

Investments held in the life insurance statutory funds can only be used within the restrictions imposed under the *Life Act* and the constitution of the Company. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions.

Profit distributions to the shareholder and policyholders are restricted by the *Life Act*. Profit distributions from participating assets can be made subject to the limit on the shareholder's share of participating profits, including historic participating retained profits. Profit distributions from non-participating assets can be made provided the Company covers its minimum prescribed capital requirements, and where the distribution exceeds current year retained profits, approval is required from APRA. In addition to the *Life Act* requirements, profit distributions are subject to the Target Surplus Policy and Appointed Actuary advice.

15.2. Segment information

The economic entity operates principally in the life insurance industry in Australia.

15.3. Statutory funds information

Details of the separate statutory funds established to account for the different types of life insurance business written by the Company are as follows:

Types of policies written	Major products
No. 1 Statutory Fund Fully or partially capital guaranteed, ordinary and Superannuation business	Individual: Whole of Life, Endowment, Term Life, Investment Account, Trauma, Disability Group: Group Life Annuities: Immediate, Deferred
No. 2 Statutory Fund Investment-linked ordinary and superannuation business	Individual: Investment-linked products Group: Investment-linked products Annuities: Investment-linked: Deferred

All policies written and major products are offered within Australia only.

15.4. Abbreviated financial statements at fund level for the year ended 30 June 2015

2015	Statutory Fund No. 1 $m	Statutory Fund No. 2 $m	Total Statutory Funds $m	Shareholder Fund $m	Total $m
Income Statement					
Insurance premium revenue	780.3	-	780.3	-	780.3
Reinsurance recoveries income	215.1	-	215.1	-	215.1
Investment revenue	189.0	346.4	535.4	0.1	535.5
Other revenue	(1.9)	13.3	11.4	2.2	13.6
Total revenue	1,182.5	359.7	1,542.2	2.3	1,544.5
Claims expense	(444.5)	-	(444.5)	-	(444.5)
Change in life insurance contract policy liabilities	(47.3)	-	(47.3)	-	(47.3)
Change in life investment contract policy liabilities	(0.7)	(297.4)	(298.1)	-	(298.1)
Increase in policyholder retained profits	37.6	-	37.6	-	37.6
Outwards reinsurance premium expense	(246.0)	-	(246.0)	-	(246.0)
Operating expenses	(341.6)	(34.9)	(376.5)	(0.4)	(376.9)
Interest expense	(5.1)	-	(5.1)	-	(5.1)
Total claims and expenses	(1,047.6)	(332.3)	(1,379.9)	(0.4)	(1,380.3)
Profit before tax	134.9	27.4	162.3	1.9	164.2
Income tax expense	(52.1)	(16.2)	(68.3)	(0.6)	(68.9)
Profit after tax	82.8	11.2	94.0	1.3	95.3
Statement of financial position					
Cash and cash equivalents	314.5	122.9	437.4	(2.5)	434.9
Investment securities and derivative assets	3,251.6	3,150.4	6,402.0	6.4	6,408.4
Gross policy liabilities ceded under reinsurance	465.7	-	465.7	-	465.7
Other assets	234.2	6.9	241.1	2.4	243.5
Total assets	4,266.0	3,280.2	7,546.2	6.3	7,552.5
Other liabilities	303.4	71.7	375.1	5.1	380.2
Gross policy liabilities	2,385.9	3,190.8	5,576.7	-	5,576.7
Unvested policyholder benefit liabilities	267.7	-	267.7	-	267.7
Subordinated notes	100.0	-	100.0	-	100.0
Total liabilities	3,057.0	3,262.5	6,319.5	5.1	6,324.6
Net assets	1,209.0	17.7	1,226.7	1.2	1,227.9
Share capital	-	-	-	698.7	698.7
Capital transfers	620.5	24.1	644.6	(644.6)	-
Retained profits / accumulated losses	588.5	(6.4)	582.1	(52.9)	529.2
Total equity	1,209.0	17.7	1,226.7	1.2	1,227.9

15.5. Abbreviated financial statements at fund level for the year ended 30 June 2014

	2014				
	Statutory Fund No. 1 $m	Statutory Fund No. 2 $m	Total Statutory Funds $m	Shareholder Fund $m	Total $m
Income Statement					
Insurance premium revenue	747.5	-	747.5	-	747.5
Reinsurance recoveries income	201.6	-	201.6	-	201.6
Investment revenue	309.0	425.8	734.8	0.1	734.9
Other revenue	(0.1)	8.9	8.8	2.4	11.2
Total revenue	1,258.0	434.7	1,692.7	2.5	1,695.2
Claims expense	(495.1)	-	(495.1)	-	(495.1)
Change in life insurance contract policy liabilities	(549.8)	-	(549.8)	-	(549.8)
Change in life investment contract policy liabilities	(6.0)	(369.8)	(375.8)	-	(375.8)
Increase in policyholder retained profits	58.0	-	58.0	-	58.0
Outwards reinsurance premium expense	(40.9)	-	(40.9)	-	(40.9)
Operating expenses	(326.5)	(45.2)	(371.7)	(0.8)	(372.5)
Interest expense	(5.0)	-	(5.0)	-	(5.0)
Total claims and expenses	(1,365.3)	(415.0)	(1,780.3)	(0.8)	(1,781.1)
Profit (loss) before tax	(107.3)	19.7	(87.6)	1.7	(85.9)
Income tax benefit (expense)	11.4	(20.2)	(8.8)	(0.5)	(9.3)
Profit (loss) after tax	(95.9)	(0.5)	(96.4)	1.2	(95.2)
Statement of financial position					
Cash and cash equivalents	163.3	223.1	386.4	(1.7)	384.7
Investment securities and derivative assets	3,232.9	3,191.0	6,423.9	1.4	6,425.3
Gross policy liabilities ceded under reinsurance	502.6	-	502.6	-	502.6
Other assets	205.8	28.2	234.0	1.6	235.6
Total assets	4,104.6	3,442.3	7,546.9	1.3	7,548.2
Other liabilities	145.7	189.5	335.2	(0.6)	334.6
Gross policy liabilities	2,477.4	3,233.3	5,710.7	-	5,710.7
Unvested policyholder benefit liabilities	305.3	-	305.3	-	305.3
Subordinated notes	100.0	-	100.0	-	100.0
Total liabilities	3,028.4	3,422.8	6,451.2	(0.6)	6,450.6
Net assets	1,076.2	19.5	1,095.7	1.9	1,097.6
Share capital	-	-	-	663.7	663.7
Capital transfers	585.5	24.1	609.6	(609.6)	-
Retained profits / accumulated losses	490.7	(4.6)	486.1	(52.2)	433.9
Total equity	1,076.2	19.5	1,095.7	1.9	1,097.6

16. Financial instruments

16.1. 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:

- investment securities; and
- derivatives.

Subordinated notes are carried at an amortised cost of $100.0 million (2014: $100.0 million). Its fair value is $102.5 million (2014: $104.5 million) derived based on a quoted price of a comparable security (Level 2).

For all other financial assets and liabilities not recognised and measured at fair value, their carrying value is a reasonable approximation of fair value.

16.2. Fair value hierarchy

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

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

2015	Level 1	Level 2	Level 3	Total
	$m	$m	$m	$m
Financial assets				
Investment securities	**1,654.8**	**4,744.8**	**-**	**6,399.6**
Derivative	**1.6**	**7.2**	**-**	**8.8**
	1,656.4	**4,752.0**	**-**	**6,408.4**
Financial liabilities				
Life investment contract liabilities	**-**	**3,214.1**	**-**	**3,214.1**
Derivative	**1.0**	**8.7**	**-**	**9.7**
	1.0	**3,222.8**	**-**	**3,223.8**

2014	Level 1	Level 2	Level 3	Total
	$m	$m	$m	$m
Financial assets				
Investment securities	1,970.8	4,448.7	-	6,419.5
Derivative	1.4	4.4	-	5.8
	1,972.2	4,453.1	-	6,425.3
Financial liabilities				
Life investment contract liabilities	-	3,258.2	-	3,258.2
Derivative	2.4	4.5	-	6.9
	2.4	3,262.7	-	3,265.1

There have been no significant transfers between Level 1 and Level 2 during the 2015 and 2014 financial years.

16.3. Master netting or similar arrangement

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

Derivative assets and liabilities

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

	Amounts subject to master netting or similar arrangements					Amounts not subject to master netting or similar arrangements	
			Related amounts not offset on the SOFP[1]				
	Gross amounts $m	Offsetting applied $m	Financial instruments $m	Cash Collateral $m	Net Exposure $m	$m	Total $m
2015							
Financial assets							
Derivatives	**8.4**	**-**	**(4.4)**	**(1.7)**	**2.3**	**0.4**	**8.8**
Financial liabilities							
Derivatives	**9.1**	**-**	**(4.4)**	**(2.5)**	**2.2**	**0.6**	**9.7**
Total	**(0.7)**	**-**	**-**	**0.8**	**0.1**	**(0.2)**	**(0.9)**
2014							
Financial assets							
Derivatives	5.8	-	(3.3)	(1.0)	1.5	-	5.8
Financial liabilities							
Derivatives	6.9	-	(3.3)	(2.4)	1.2	-	6.9
Total	(1.1)	-	-	1.4	0.3	-	(1.1)

Note:

1. SOFP denotes statement of financial position.

17. Risk management

17.1 Risk management objectives and structure

The Company is an entity within the Suncorp Group, and 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 (**Risk Committee**) has delegated authority from the SGL Board to carry out the oversight of the adequacy and effectiveness of the risk management frameworks and processes within the Suncorp Group.

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

- the Suncorp Group's risk appetite framework and its link to strategic business and capital plans;
- accountabilities and governance arrangements for the management of risk within the Three Lines of Defence model; 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)	• Identify and manage the risks inherent in their operations • Ensure compliance with all legal and regulatory requirements and Suncorp Group policies • Promptly escalate any significant actual and emerging risks for management attention.
Second – Independent functions own and monitor the application of risk frameworks, and measure and report on risk performance and compliance	All risk functions (Suncorp Group and business units)	• Design, implement and manage the ongoing maintenance of Suncorp Group risk frameworks and related policies • Advise and partner with the business in the design and execution of risk frameworks and practices • Develop, apply and execute business units' risk frameworks that are consistent with Suncorp Group for the respective business areas • Facilitate the reporting of the appropriateness and quality of risk management.
Third – Independent assurance over internal controls and risk management practices	Internal auditors	• Decides the level and extent of independent testing required to verify the efficacy of internal controls • Validates the overall risk framework • Provides assurance that the risk management practices are functioning as intended.

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

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

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

17.1. Risk management objectives and structure (continued)

The Company prepares a Risk Management Strategy (**RMS**) that is approved by the Risk Committee and submitted to APRA annually. The RMS describes the strategy adopted by the Board and management for managing risk within the Company, including risk appetite, policies, procedures, management responsibilities and controls.

The key risks addressed by the ERMF are defined below:

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

The Company is exposed to mainly the following categories of market risk:

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

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

- Note 17.2 Insurance risk management
- Note 17.3 to 17.5 Risk management for financial instruments: credit, liquidity and market risks; and
- Note 6 Derivatives financial instruments.

17.2. Insurance risk management

a) Policies and practices for mitigating insurance risk

Risk appetite statements are in place and controls are implemented to manage the following components of insurance risk:

- pricing, including pricing strategies, technical pricing and pricing adequacy reviews
- roles and responsibilities for pricing, the development and approval of new products and changes to existing products
- processes that identify and respond to changes in the internal and external environment impacting insurance products
- underwriting, including processes to consider aggregate exposures from a portfolio perspective to determine the actual exposure to particular risks and guidelines around the utilisation of reinsurance in pricing and underwriting
- delegated authorities for the acceptance, assessment and settlement of claims including operational and ex-gratia authority limits
- procedures relating to the notification, assessment, evaluation, settlement and closure of claims, and processes to detect and reduce loss associated with claims risk; and
- reserving practices and procedures at individual claim and portfolio level.

The Board receives the Financial Condition Report from the Appointed Actuary who also provides advice in relation to premium, issuing of new policies and reinsurance arrangements in accordance with APRA Prudential Standards.

The concentration of insurance risk is mitigated through diversification over classes of insurance business, the use of reinsurer coverage and ensuring there is an appropriate mixture of business.

The concentration of insurance risk is also managed by ensuring an appropriate mixture of mortality, morbidity and annuity benefit payments. Exposure to risk of large claims for individual lives is managed through monitoring of the Company’s in-force business, the mix of new business written and placing cover with a number of reinsurer with strong credit ratings each year.

17.2. Insurance risk management (continued)

b) Terms and conditions of insurance contracts

The nature and terms of the insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend.

The following table provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance and investment contracts issued by the Company.

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting the timing and uncertainty of future cash flows
Long-term non-participating insurance contracts with fixed and guaranteed terms (Term Life and Disability)	Guaranteed benefits paid on death, ill health or maturity which are fixed and are not at the discretion of the issuer.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality, morbidity, lapses, expenses and market earning rates on the assets backing the liabilities.
Conventional life insurance contracts with discretionary participating benefits (Endowment and Whole of Life)	These policies combine life insurance and savings. The policyholder pays a regular premium and receives the specified sum assured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on surrender, death or maturity.	Operating profit arising from these contracts is allocated 80:20 between the policyholders and shareholder in accordance with the *Life Act*. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as bonuses.	Mortality, surrenders, expenses and market earning rates on the assets backing the liabilities.
Investment account contracts with discretionary participating features	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is guaranteed. Operating profit arising from these contracts is allocated between the policyholder and shareholder in accordance with the *Life Act*. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as interest credits.	Surrenders, expenses and market earning rates on the assets backing the liabilities.
Unit-linked investment contracts	The gross value of premiums received is invested in units and the policyholder investment account is the value of the units. Investment management fees are deducted from policyholders annually based on the average value of funds under management.	The investment return is equal to the earnings on assets backing the investment contracts less any applicable management fees.	Market earning rates on assets backing investment contracts, expenses, surrenders and withdrawals.
Lifetime annuity	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of guaranteed regular income is set at inception of the policy, including any indexation.	Longevity, expenses and market earning rates on assets backing liabilities.

17.3. Credit risk

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

Key sources of credit risk	How are these managed
Investments in financial instruments	Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings. An investment framework is in place that sets and monitors investment strategies and arrangements.
Reinsurance recoveries receivables	Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with strong credit ratings. Eligible recoveries under reinsurance arrangements are monitored and managed internally.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 6.

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

For investment-linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets.

	Credit Rating							
	AAA $m	AA $m	A $m	BBB $m	Non Investment grade $m	Not rated $m	Investment linked business $m	Total $m
2015								
Cash and cash equivalents	**-**	**112.3**	**252.3**	**-**	**-**	**-**	**70.3**	**434.9**
Interest-bearing securities	**1,024.8**	**990.1**	**494.0**	**76.2**	**19.0**	**40.1**	**442.3**	**3,086.5**
Reinsurance recoveries receivables	**-**	**119.6**	**2.3**	**-**	**-**	**-**	**-**	**121.9**
Receivables	**-**	**-**	**1.6**	**0.1**	**0.4**	**80.0**	**0.2**	**82.3**
Derivatives	**1.0**	**6.8**	**0.2**	**-**	**-**	**-**	**0.8**	**8.8**
Total	**1,025.8**	**1,228.8**	**750.4**	**76.3**	**19.4**	**120.1**	**513.6**	**3,734.4**
2014								
Cash and cash equivalents	-	136.5	176.7	-	-	-	71.5	384.7
Interest-bearing securities	1,128.9	1,044.5	320.2	25.1	-	-	479.3	2,998.0
Reinsurance recoveries receivables	-	90.4	3.5	-	-	-	-	93.9
Receivables	-	-	-	-	-	117.8	-	117.8
Derivatives	-	5.8	-	-	-	-	-	5.8
Total	1,128.9	1,277.2	500.4	25.1	-	117.8	550.8	3,600.2

17.3. Credit risk (continued)

The following table provides information regarding the carrying value of financial assets that have been impaired and the aging of those that are past due but not impaired at the balance date. An amount is considered to be past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis.

		Past due but not impaired					
	Neither past due not impaired $m	0-3 months $m	3-6 months $m	6-12 months $m	>12 months $m	Impaired $m	Total $m
2015							
Premium receivables	**-**	**9.2**	**-**	**-**	**-**	**-**	**9.2**
Reinsurance recoveries receivable	**83.7**	**11.9**	**8.3**	**5.6**	**12.4**	**-**	**121.9**
Total	**83.7**	**21.1**	**8.3**	**5.6**	**12.4**	**-**	**131.1**
2014							
Premium receivables	-	3.1	-	-	-	-	3.1
Reinsurance recoveries receivable	63.8	22.2	1.9	2.4	3.6	-	93.9
Total	63.8	25.3	1.9	2.4	3.6	-	97.0

17.4. Liquidity risk

The key objective of the Company's liquidity and funding management is to ensure that it has sufficient available liquidity to meet the Company's current and future obligations under both normal and stressed liquidity environments, and does not introduce an unacceptable level of funding risk. The following key facilities and arrangements are in place to mitigate liquidity risks:

- investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations.
- regularity of premiums received provides substantial liquidity to meet claim payments and associated expenses as they arise; and
- flexibility in investment strategies implemented for investment management to provide sufficient liquidity to meet claim payments as they fall due, based on actuarial assumptions.

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

The contractual maturity information is not necessarily used in the liquidity management of the balance sheet. Additional factors as described above are considered when managing the maturity profiles of the business.

2015	Carrying amount $m	1 year or less $m	1 to 5 years $m	Over 5 years $m	Total $m
Policy claims in process of settlement	**168.3**	**168.3**	**-**	**-**	**168.3**
Payables	**178.6**	**178.6**	**-**	**-**	**178.6**
Amounts due to reinsurers	**23.6**	**23.6**	**-**	**-**	**23.6**
Derivatives liabilities (net settled)	**9.7**	**4.0**	**4.7**	**4.2**	**12.9**
Subordinated notes	**100.0**	**5.0**	**19.9**	**115.7**	**140.6**
Total	**480.2**	**379.5**	**24.6**	**119.9**	**524.0**
2014					
Policy claims in process of settlement	164.5	164.5	-	-	164.5
Payables	151.8	151.8	-	-	151.8
Amounts due to reinsurers	11.4	11.4	-	-	11.4
Derivatives liabilities (net settled)	6.9	4.9	2.4	3.2	10.5
Subordinated notes	100.0	5.6	22.2	123.0	150.8
Total	434.6	338.2	24.6	126.2	489.0

17.5. Market risk

Market risk arises from mismatches between asset returns and guaranteed liability returns, adverse movements in market prices affecting fee income on investment-linked policies and from returns obtained from the investment of shareholder's capital held in the Company.

The management of market risk is most critical for products which involve the investment of significant amounts of money to meet future liabilities and where the returns on those assets either accrue to the shareholder or are not necessarily able to be passed on to policyholders in a timely manner. This includes, for example, assets backing disability income reserves for open claims and participating business. For some non-participating insurance products, such as unit-linked products, market risks are passed on to the policyholder, although as noted, the shareholder's fee revenue may be adversely affected by market falls.

(a) Foreign exchange risk

The statutory funds of the Company invest in overseas assets. In the investment-linked funds any investment returns, whether positive or negative, are passed on to the policyholders. Various guarantees are provided by the non-investment-linked statutory funds, principally in relation to capital and declared interest. The relevant statutory funds maintain reserves in accordance with APRA Prudential Standards to meet the risk associated with diminution of value associated with foreign exchange risk.

The Company invests a portion of investment assets either directly or indirectly in global equities with foreign currency exposure managed by entering into forward foreign exchange and futures contracts.

The table below discloses the exposure of the forward foreign exchange contracts as at 30 June 2015.

A sensitivity analysis showing the impact on profit or loss for changes in foreign exchange rates for exposures as at the balance date with all other variables including foreign exchange rates and policy liabilities remaining constant are shown in the table below. There is no impact on equity reserves. Part of the profit or loss impact of the asset movement would be absorbed by the movement of policy liabilities.

Investment-linked business is excluded from the analysis as there is no residual foreign exchange rate exposure to the shareholder. The movements in foreign exchange rates used in the sensitivity analysis for 2015 reflect the assessment of the reasonable possible changes in foreign exchange rates over the next twelve months given renewed observations and experience in the investment markets during the financial year.

	2015			2014		
	Exposure at 30 June $m	Change in FX rate %	Profit (loss) after tax $m	Exposure at 30 June $m	Change in FX rate %	Profit (loss) after tax $m
USD	**191.1**	**+12**	**14.5**	145.0	+10	9.7
		-12	**(18.0)**		-10	(10.7)
Other	**151.8**	**+10**	**10.0**	136.5	+10	9.0
		-10	**(11.3)**		-10	(10.1)

Note:

1. After tax impact on profit (loss) using corporate tax rate of 30%. Actual after tax impact for life insurance business may differ.

17.5 Market risk (continued)

(b) Interest rate risk

Interest rate risk exposure arises mainly from investment in interest-bearing securities and from ongoing valuation of policy liabilities of the life insurance contracts.

Interest rate risk arises in respect of financial assets held in the shareholder's fund and the life statutory funds over liabilities. This is combined with an economic mismatch between the timing of payments to life insurance and life investment contract holders and the duration of the assets held in the statutory funds to back these liabilities.

The sensitivity of profit or loss after tax to movements in interest rates in relation to interest-bearing securities held at the balance date is shown in the table below. There is no impact on equity reserves. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. The value of the policy liabilities is assumed to be unchanged. Part of the profit or loss impact of the asset movement would be absorbed by the movement of policy liabilities.

Where the liability to the investment contract holder is directly linked to the value of assets held to back that liability there is no residual interest rate exposure to the shareholder. Accordingly, investment-linked business is excluded from the analysis below.

The movements in interest rates used in the sensitivity analysis for 2015 have been revised to reflect an updated assessment of the reasonable possible changes in interest rates over the next twelve months, given renewed observations and experience in the investment markets during the financial year.

	2015			2014		
	Exposure at 30 June $m	Change in interest rate bp	Profit (loss) after tax $m	Exposure at 30 June $m	Change in interest rate bp	Profit (loss) after tax $m
Interest-bearing investment securities	**2,644.1**	**+100**	**(39.6)**	2,536.1	+125	(54.0)
		-50	**21.3**		-25	11.6
Subordinated notes	**100.0**	**+100**	**(0.7)**	100.0	+125	(0.9)
		-50	**0.4**		-25	0.2
Policyholder loans	**17.5**	**+100**	**0.1**	18.4	+150	0.2
		-50	**(0.1)**		-100	(0.1)

Note:

1. After tax impact on profit (loss) using corporate tax rate of 30%. Actual after tax impact for life insurance business may differ.

(c) Equity risk

The Company has exposure to equity risk through its investment in international and domestic equity trusts. Equity risk is managed by incorporating a diverse holding of Australian and overseas equities (whether direct or through unitised vehicles) and through the controlled use of derivative financial instruments.

The table below presents a sensitivity analysis showing the impact on profit or loss for price movements for exposures as at the balance date with all other variables, including policy liabilities, remaining constant. There is no impact on equity reserves. Part of the profit or loss impact of the asset movement would be absorbed by the movement of policy liabilities

Investment-linked business is excluded from the analysis as there is no residual equity price exposure to the shareholder. The movements in equity prices used in the sensitivity analysis for 2015 have been revised to reflect an updated assessment of the reasonable possible changes in equity prices over the next twelve months, given renewed observations and experience in the investment markets during the financial year.

	2015			2014		
	Exposure at 30 June $m	Change in equity price %	Profit (loss) after tax $m	Exposure at 30 June $m	Change in equity price %	Profit (loss) after tax $m
Listed Australian equities and unit trusts	**346.8**	**+15**	**36.4**	401.0	+15	42.1
		-20	**(48.6)**		-15	(42.1)
Listed International equities and unit trusts	**222.0**	**+15**	**23.3**	265.1	+15	27.8
		-20	**(31.1)**		-15	(27.8)

Note:

1. After tax impact on profit (loss) using corporate tax rate of 30%. Actual after tax impact for life insurance business may differ.

17.5 Market risk (continued)

(d) Credit spread risk

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

The table below presents a sensitivity analysis on how credit spread movements could affect profit or loss for exposures as at the balance date with all other variables, including policy liabilities, remaining constant. There is no impact on equity reserves. Part of the profit or loss impact of the asset movement would absorbed by the movement of policy liabilities.

The movements in credit spread used in the sensitivity analysis for 2015 have been revised to reflect an updated assessment of the reasonable possible changes in credit spreads over the next twelve months, given renewed observations and experience in the investment markets during the financial year.

	2015			2014		
	Exposure at 30 June $m	Change in credit spread bp	Profit (loss) after tax $m	Exposure at 30 June $m	Change in credit spread bp	Profit (loss) after tax $m
Credit exposure (excluding semi-government)	**1,491.9**	**+ 60**	**(13.6)**	1,292.2	+75	(23.5)
		-40	**9.8**		-25	8.1
Credit exposure (semi-government)	**331.6**	**+ 50**	**(9.1)**	356.7	+50	(12.9)
		-20	**3.8**		-20	5.0

18. Subsidiaries

	2015	2014
	Holding %	Holding %
Suncorp Group Australian Cash Enhanced Trust	**99**	99
Suncorp Group Australian Equities Active Trust	**79**	79
Suncorp Group Australian Equities Enhanced Index Trust	**73**	77
Suncorp Group Australian Equity Value Trust	**100**	100
Suncorp Group Australian Fixed Interest Trust	**92**	96
Suncorp Group Australian Liquid Cash Trust	**46**	33
Suncorp Group Australian Listed Property Trust	**50**	64
Suncorp Group Global Convertible Bonds Trust	**100**	-
Suncorp Group Global Equities Trust	**78**	75
Suncorp Group Global Fixed Interest Trust	**81**	94

19. Key management personnel disclosures

19.1. Key management personnel

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

	2015	2014
	$	$
Short-term employee benefits	**20,499,064**	20,388,506
Long-term employee benefits	**5,025,255**	5,248,111
Post-employment benefits	**435,241**	416,331
Share-based payments	**5,627,513**	4,718,858
Termination benefits	**-**	766,637
Total	**31,587,073**	31,538,443

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

19.2. Other key management personnel transactions

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 and life insurance policies.

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

20. Other related party disclosures

20.1. Trustee activities

During the financial year Suncorp Portfolio Services Limited (**SPSL**), a related party of the Company, acted as licensed trustee in relation to various superannuation policies issued by the Company. The activities of SPSL are managed separately from the operations of the Company.

20.2. Identity of related parties

The intermediate parent entity is Suncorp Life Holdings Limited and the ultimate parent entity in the wholly-owned group is Suncorp Group Limited. The Company has related party relationships with its ultimate parent entity and its subsidiaries (note 18), its KMP (note 19) and other entities within the Suncorp Group (which consists of Suncorp Group Limited and its wholly-owned subsidiaries).

20.3. Related party transactions

Transactions between the Company and related parties in the Suncorp Group consisted of advances made and repaid, dividends received and paid, insurance premiums received and paid, fees received and paid for administrative, property and portfolio management services and interest received and paid. All these transactions were on a normal commercial basis.

	2015	2014
	$	$
The aggregate amounts included in the determination of profit or loss before tax that resulted from transactions with related parties are:		
Investment revenue:		
Subsidiaries	**370,829,763**	418,749,011
Fee and other income:		
Other related parties	**1,353,935**	1,500,647
Operating expense:		
Other related parties	**183,960,238**	178,379,004
Interest expense:		
Other related parties	**5,070,296**	5,002,673
Cash and cash equivalents:		
Other related parties	**246,578,979**	178,878,561
Net investment in Suncorp Group investment trusts (note 18):		
Subsidiaries	**4,358,934,920**	4,364,791,732
Receivables:		
Other related parties	**18,560,642**	2,911,210
Payables:		
Other related parties	**97,303,821**	61,935,660
Subordinated notes:		
Other related parties	**100,000,000**	100,000,000

21. Auditor's remuneration

	2015	2014
	$	$
KPMG Australia		
Audit and review services		
Audit of financial report	**308,650**	321,250
Other regulatory and assurance services	**325,250**	366,780
Total auditor's remuneration	**633,900**	688,030

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

22. Contingent liabilities

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

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

- In the ordinary course of business, the Company enters into various types of investment contracts that can give rise to contingent liabilities. It is not expected that any significant liability will arise from these types of transactions as any losses or gains are offset by corresponding gains or losses on the underlying exposures.
- The Company is a member of a tax-consolidated group, and is jointly and severally liable for the income tax obligations of that group in the event that the head entity of the group defaults in its payment obligations to the Australian Tax Office. The tax sharing agreements have effect to limit these joint and several liabilities to an amount relative to its contribution to group profit. The head entity has not been in default of its payment obligations and the directors are of the opinion that the probability of default is remote.

23. Significant accounting policies

The significant accounting policies set out below have been consistently applied to all periods presented in these financial statements.

Under the *Life Insurance Act 1995* (***Life Act***), life insurance business is conducted within one or more separate statutory funds, which are distinguished from each other and from the shareholder fund. The financial report of the Company is prepared in accordance with AASB 1038 *Life Insurance Contracts* and shows all major components of the financial statements disaggregated between the various life insurance statutory funds and the shareholder fund, as well as between investment-linked business and those relating to non-investment-linked business. The assets of the Company are allocated between the policyholders and shareholder funds with all assets, liabilities, revenues and expenses recognised in the financial statements, irrespective of whether they are policyholder or shareholder owned.

The shareholder's entitlement to monies held in the statutory funds is subject to the distribution and transfer restrictions and other requirements of the *Life Act* and the constitution of the Company. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions.

23.1. Foreign currency transactions

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

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

23.2. Revenue and expense recognition

(a) Premium revenue

Premium recorded as revenue relates to risk-bearing life insurance contracts. The components of premium that relate to life investment contracts are in the nature of deposits and are recognised as a movement in policy liabilities.

Life insurance premiums with no due date are recognised as revenue on cash received basis. Premiums with a regular due date are recognised on an accruals basis.

(b) Claims expense

Insurance claims are recognised in profit or loss when the liability to the policyholder under the policy contract has been established or upon notification of the insured event, depending on the type of claim.

The component of a life insurance contract claim that relates to the bearing of risks is treated as a claim expense. Other life insurance claim amounts and all life investment contract amounts paid to policyholders are in the nature of withdrawals and are recognised as a decrease in policy liabilities.

(c) Outwards reinsurance expense

Premiums ceded to reinsurers are recognised as an outwards reinsurance premiums expense in profit or loss from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. A portion of outwards reinsurance premiums are recognised as a deferred reinsurance asset at reporting date, where there are future economic benefits to be received from reinsurance premiums.

(d) Reinsurance recoveries income

Policy claims recoverable from reinsurers are recognised as revenue at the time they come into effect in accordance with the reinsurance treaties.

(e) Fair value gains and losses

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

(f) Dividends and distribution income

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

(g) Fees and other income

Fees and other income is recognised as services are provided.

(h) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method.

(i) Basis of expense apportionment

Life insurance expenditure has been apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Act.* The expense apportionment basis is in line with the principles set out in APRA Prudential Standard LPS 340 *Valuation of Policy Liabilities.*

Expenses excluding investment management fees, which are directly identifiable, have been apportioned between policy acquisition and policy maintenance on the basis of the objective when incurring expense and the outcome achieved. Where apportionment is not feasible between the disclosure categories, expenses have been apportioned as maintenance expenses. Expenses which are directly attributable to an individual policy or product are apportioned directly to the statutory fund within which the class of business to which that policy or product belongs. All indirect expenses charged to profit or loss accounts are equitably apportioned to each class of business.

Statistics such as policy counts, annual premiums, fund under management, claims payments and ability to pay are used to apportion the expenses to individual life insurance and life investment products.

23.3. Income tax

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

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

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

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

AASB 1038 *Life Insurance Contracts* requires shareholder and policyholder tax to be included in income tax expense in the profit or loss. The majority of life insurance tax is allocated to policy liabilities and does not affect profit attributable to owners of the Company.

Tax consolidation

The Company is a wholly-owned entity in a tax consolidated group, with SGL as the head entity. Consequently, all members of the tax consolidated group are taxed as a single entity.

The Company recognises the current and deferred tax amounts applicable to the transactions undertaken by it, reasonably adjusted for certain intra group transactions, as if it continued to be a separate taxpayer. The head entity recognises the entire tax-consolidated group's current tax liability. Any differences between the current tax liability and any tax funding arrangement amounts are recognised by the head entity as an equity contribution to or distribution from the Company.

The members of the tax-consolidated group have entered into a tax sharing agreement and a tax funding agreement. The tax funding agreement sets out the obligations of the members. The contributions are calculated as if the subsidiary was a separate taxpayer, 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.

Taxation of financial arrangements

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

23.4. 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.

23.5. Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on deposit, highly liquid short-term investments and money at short call. They are carried at face value or the gross value of the outstanding balance.

23.6. Non-derivative financial assets

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are classified as either held for trading or are designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy.

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

The Company's financial assets at fair value through profit or loss within its statutory funds include investment securities.

b) Loans and other receivables

Loans and other receivables are financial assets with fixed and determinable payments that are not quoted in an active market. They are initially recognised on the date they are originated.

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

c) 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 Company has transferred substantially all risk and rewards of ownership.

23.7. Derivative financial instruments

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

All derivatives are initially recognised at fair value on trade date. Transaction costs are recognised in profit or loss as incurred. Derivatives are classified and accounted for as held for trading financial assets at fair value through profit and loss (note 23.6 (a)).

23.8. Assets backing life insurance and life investment liabilities

The assets of the Company are assessed under AASB 1038 *Life Insurance Contracts* to be assets that are held to back life insurance policy liabilities and assets that represent shareholder funds.

The Company has determined that all financial assets held within its statutory funds are assets backing policy liabilities. These financial assets include investment securities that are designated as fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy.

23.9. Deferred acquisition costs

Deferred acquisition costs for life insurance contracts represent the fixed and variable costs of acquiring new business and include commissions, certain advertising and underwriting costs. These costs are implicitly deferred through Margin on Service (**MoS**) accounting and recognised in the statement of financial position as a reduction in life insurance contract liabilities. The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative.

Deferred acquisition costs for life investment contracts include the variable costs of acquiring new business and include commission costs. The deferred amounts are amortised in accordance with expected earning pattern of associated revenue.

All other acquisition costs are expensed as incurred.

23.10. Impairment

a) Financial assets

Financial assets, other than those measured at fair value through profit or 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.

b) 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 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 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.

23.11. Non-derivative financial liabilities

a) Financial liabilities at fair value through profit or loss

These liabilities are classified as either held for trading or those that are designated upon initial recognition. Liabilities are initially recognised on trade date at fair value with any directly attributable transaction costs recognised in profit or loss as incurred. Fair value is determined using the offer price where available. Movements in the fair value are recognised in the profit or loss.

b) Financial liabilities carried at amortised cost

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

c) Derecognition of financial liabilities

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

23.12. Policy liabilities

a) Life Insurance contracts

Life insurance contract liabilities are calculated using the Margin on Services (**MoS**) methodology. Under MoS, the excess of premium received over expected claims and expenses is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder. The profit release is controlled by a profit carrier.

The projection method is generally used to determine life insurance contract liabilities. The net present value of projected cash flows is calculated using best estimate assumptions about the future. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets. Otherwise, a risk-free discount rate is used.

An accumulation method has been used for some risk business, where the liability is based on an unearned premium reserve, less an explicit allowance for deferred acquisition costs, and a reserve for incurred but not reported claims. Where used, the accumulation basis is considered to be a reasonable approximation of liabilities had they been determined on a projection basis.

Participating policies are entitled to share in the profits that arise from participating business. This profit sharing is governed by the *Life Act* and the Company's constitution. The participating policyholder profit sharing entitlement is treated as an expense in the profit or loss.

The operating profit arising from discretionary participating contracts is allocated between shareholder and participating policyholders by applying the MoS principles in accordance with the *Life Act*.

Profit allocated to participating policyholders is recognised as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyholders (i.e. unvested) and that which has been allocated to specific policyholders by way of bonus distributions (i.e. vested) are included within life insurance contract liabilities.

23.12. Policy liabilities (continued)

b) Life investment contracts

A life investment contract involves both the origination of a financial instrument and the provision of investment management services. Policy liabilities are measured at the fair value of the financial instrument component of the contract (designated as fair value through profit or loss) plus the liability in respect of the management services element. The management services element, including associated acquisition costs, is recognised as revenue as services are performed.

For investment-linked products, the life investment contract liability is directly linked to the performance and value of the assets that back them and is determined as the fair value of those assets after tax. For fixed income products, the liability is determined as the net present value of expected cash flows, subject to a minimum of current surrender value.

c) Liability adequacy test

The adequacy of the insurance liabilities is evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. If it is determined, using best estimate assumptions, that a shortfall exists, the shortfall is immediately recognised in the profit or loss.

23.13. Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are determined using the same methods as for life insurance contract liabilities. The recoverability of these assets is assessed on a periodic basis to consider whether the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

23.14. Contingent liabilities and contingent assets

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

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

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

23.15. Accounting standards and interpretations issued but not yet effective

AASB 9 *Financial Instruments* was issued and introduces changes in the classification and measurement of financial assets and financial liabilities, impairment of financial assets and new rules for hedge accounting.

This standard becomes mandatory for the Company's 30 June 2019 financial statements. The potential effects on adoption of the standard are currently being assessed. It is available for early adoption but has not been applied by the Company in this financial report.

24. Subsequent events

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

Directors' declaration

1. In the opinion of the Directors of Suncorp Life & Superannuation Limited (the Company):
   (a) the financial statements and notes, set out on pages 5 to 43 are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Company's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors draw attention to note 2.1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dr Zygmunt E Switkowski AO
Director

Patrick J R Snowball
Managing Director and Group CEO

27 August 2015

Independent auditor's report to the members of Suncorp Life & Superannuation Limited

Report on the financial report

We have audited the accompanying financial report of Suncorp Life & Superannuation Limited (the Company), which comprises the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 24 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

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 financial position and of its performance.

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Suncorp Life & Superannuation Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Company's financial position as at 30 June 2015 and of its performance for the financial 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.

KPMG

KPMG

Paul Ruiz
Partner

Sydney

27 August 2015