SUNCORP GROUP LIMITED AND SUBSIDIARIES

ABN 66 145 290 124

Consolidated interim financial report
For the half-year ended 31 December 2018

Contents | Page

DIRECTORS' REPORT

The directors present their report together with the consolidated interim financial report of the Suncorp Group (the **Suncorp Group**, **Suncorp** or the **Group**), being Suncorp Group Limited (the **Company**) and its subsidiaries for the half-year ended 31 December 2018 and the auditor's review report thereon. Terms that are defined appear in bold the first time they are used.

1. Directors

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

Non-executive

Christine F McLoughlin (Chairman)	Director since 2015, Chairman since 20 September 2018
Audette E Exel AO	Director since 2012
Sally A Herman	Director since 2015
Simon C Machell	Director since 2017
Douglas F McTaggart	Director since 2012
Lindsay J Tanner	Director since 2018
Sylvia Falzon	Appointed 1 September 2018
Ian L Hammond	Appointed 2 October 2018
Dr Zygmunt E Switkowski AO	Retired 20 September 2018

Executive

Michael A Cameron (CEO and Managing Director)	Executive director since 2015 (Non-executive director from 2012 to 30 September 2015)

2. Dividends

A fully franked 2018 final dividend of $623 million (48 cents per share, comprising 40 cents per share ordinary dividend and 8 cents per share special dividend) was paid on 19 September 2018. A fully franked 2019 interim dividend of $338 million (26 cents per share) has been determined since balance date by the directors.

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

3. Review of operations

3.1. Overview of the Suncorp Group

The Suncorp Group has delivered a net profit after tax attributable to owners of the Company of $250 million for the half-year ended 31 December 2018 (December 2017: $452 million).

Suncorp's half-year result reflects solid Group top-line growth of 3.2% despite a moderating banking environment. Over the half year, there was an improvement in Insurance (Australia)'s underlying margins, underpinned by ongoing benefits achieved through the Business Improvement Program (**BIP**) and remediation in the Commercial portfolio.

This was more than offset by the impact of natural hazards and volatile investment markets.

In New Zealand, strong top-line growth combined with favourable natural hazards and working claims experience resulted in a significant increase in reported profit.

The Banking and Wealth result was broadly flat compared to prior period, reflecting lower impairment losses and expenses, offset by subdued top-line growth and funding cost pressures.

Following the announcement of the sale of the Australian life business in August 2018, the Australian Life Insurance result for the half-year, combined with the participating Wealth business previously reported through the Banking & Wealth function, has been disclosed as a separate line item as discontinued operations. Excluding the contribution from the Australian life business, profits from ongoing operating functions declined by 11%.

Group net profit after tax of $250 million includes a $145 million write down of goodwill related to the loss on sale of the Australian Life Insurance business, with the balance (estimated $735 million) to be recognised at the date of completion.

BIP delivered a net operating expense benefit of $38 million (December 2017: $32 million unfavourable expense) with the majority of benefits flowing to Insurance.

The fire services levy (**FSL**) impact on operating expenses increased to $85 million (December 2017: $62 million) following changes to the NSW FSL scheme.

3.2. Financial position and capital structure

Net assets of the Suncorp Group decreased to $13,624 million at 31 December 2018 from $13,973 million at 30 June 2018. The decrease in net assets of $349 million primarily arises from the payment of the 2018 final and interim dividend, partially offset by the total comprehensive income for the half-year.

Suncorp Group's capital management strategy is to optimise shareholder value by managing the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to maintain and grow the business, in accordance with risk appetite.

At 31 December 2018, the General Insurance Common Equity Tier 1 (**CET1**) capital position was 1.21 times the Prescribed Capital Amount (**PCA**) (June 2018: 1.37 times), the Bank's CET1 ratio was 9.16% (June 2018: 9.07%) and the Life excess CET1 to target was $162 million (June 2018: $152 million). The Group's excess to CET1 target is $434 million (June 2018: $448 million) after adjusting for the interim dividend.

During the half year, the Group issued $600 million of subordinated debt through the Company as part of its capital management strategy, which was fully deployed to the Bank as Basel III compliant Tier 2 capital. The issuance facilitated the redemption of the Company's existing $770 million of subordinated debt, of which $670 million and $100 million had been deployed as qualifying Tier 2 capital to the Bank and Life businesses respectively. Following the $600 million Tier 2 issuance and $770 million Tier 2 redemption, the Group now has a more optimal level of Tier 2 capital.

Suncorp-Metway Limited's Basel III APS 330 Public Disclosures are made available at suncorpgroup.com.au/investors/reports.

3.3. Review of principal businesses

Insurance achieved a net profit after tax of $133 million for continuing operations for the half-year ended 31 December 2018 (December 2017: $222 million). The result has been impacted by an increase in natural hazard claims costs and the negative impact of investment market movements, partly offset by an improvement in underlying margins.

The insurance trading result for Australian general insurance was $190 million (December 2017: $266 million).

Gross written premium (**GWP**) increased by 2.4% to $4,101 million (December 2017: $4,004 million) which reflects premium increases in Home and Motor and in Commercial insurance, offset by reduced CTP revenue driven by scheme reform.

Home and Motor GWP growth of 3.0% was driven by rate increases, partially offset by a contraction in units. Commercial GWP increased by 2.3% with targeted rate increases achieved across the portfolio. CTP GWP decreased by 5.7% due to scheme reform, with national market share maintained. Workers Compensation and other growth of 24.2% was due to strong retention and premium rate increases predominantly in Western Australia.

Net incurred claims were $2,855 million (December 2017: $2,724 million), increased 4.8%, driven by higher natural hazard costs, partly offset by the continued benefits from BIP claims initiatives and higher reserve releases. The loss ratio was 77.4% (December 2017: 74.8%). Reserve releases of $170 million representing 4.6% of net earned premium. This was primarily attributable to long-tail claims reserve releases attributable to favourable claims experience. The impact of benign wage inflation in the CTP portfolios contributed to the majority of the releases.

Net investment income has decreased to $122 million (December 2017: $192 million) due to weak equity markets and relative underperformance combined with negative returns from alternative investments.

The Australian Life Insurance business, which forms part of the Insurance and Banking & Wealth segments, is classified as discontinued operations and contributes after tax profit of $25 million which has decreased by 50% reflecting reduced experience profits, partially offset by some one-off adjustments in the Wealth business. Market adjustments were negative due to actual market rates being lower than our longer-term investment return assumptions. Total loss from discontinued operations also contains expenses of $155 million for write down of goodwill and transaction and separation costs that occurred during the period.

Banking & Wealth delivered a net profit after tax from continuing operations of $183 million for the half-year ended 31 December 2018 (December 2017: $189 million).

Banking's result was driven by lower net interest income offset by lower impairment losses on loans and advances.

Net interest income decreased 2.2% to $585 million (December 2017: $598 million), with moderate growth in total lending and a strong at-call deposit growth and relatively flat wholesale funding. The average net interest margin decreased by 7 basis points (**bps**) to 1.79% (December 2017: 1.86%), driven by positive impacts from the growth in at-call deposits offset by a sustained elevation of the bank bill swap rate, increased cost of customer deposits and aggressive price competition in the mortgage market.

Total loans and advances increased to $59,031 million (June 2018: $58,598 million). Retail lending growth was driven by competitive price offerings and a slowing mortgage market. Business lending growth was driven by an increase in commercial lending, offset by a reduction in the agribusiness portfolio.

Impairment losses on loans and advances of $7 million (December 2017: $13 million) remains below the operating range, representing 2 bps of gross loans and advances on an annualised basis. The transition from AASB 139 *Financial Instruments: Recognition and Measurement* to AASB 9 *Financial Instruments* resulted in a net $20 million increase in the collective provision at 1 July 2018 and was reflected in the opening retained earnings as required by AASB 9.

Banking's deposit-to-loan ratio of 66.5% remains within the target operating range of 60% to 70%. Over the last 12 months, Suncorp has funded lending growth through $1.3 billion growth in customer funding, with wholesale funding remaining relatively flat over the period.

Banking monitors the composition and stability of its funding to remain within the Board approved risk appetite, including compliance with both the Liquidity Coverage Ratio (**LCR**) and Net Stable Funding Ratio (**NSFR**) requirements. The NSFR was 112% as at 31 December 2018.The average LCR for the half was 128%, ending the period at 134%, above internal operating targets and APRA's 100% limit.

Wealth profit attributed to shareholders of $1 million was an improvement due to the completion of the Super Simplification Program in FY18. The result was partially offset by increased industry-wide regulatory costs incurred over the half. Regulatory costs are expected to remain elevated over the medium-term as the Wealth business continues the implementation of its regulatory change program.

Funds under administration of $6,011 million (December 2017: $6,416 million) were impacted over the half by elevated outflows and a downturn in international investment markets.

Suncorp New Zealand achieved a profit after tax of $111 million for the half-year ended 31 December 2018 (December 2017: $61 million). This comprises a net profit after tax of $95 million (December 2017: $46 million) from the New Zealand general insurance business and a net profit after tax of $16 million (December 2017: $15 million) from the New Zealand life insurance business.

The New Zealand general insurance business showed strong top-line growth and favourable natural hazard and working claims experience driving the improved performance.

GWP grew by 9.2% to $768 million (December 2017: $703 million) driven by premium increases across all portfolios and supported by unit growth across the direct business and intermediated channels.

Net incurred claims were $315 million (December 2017: $319 million), down 1.3%, driven by favourable natural hazard experience and improved working claims. The loss ratio was 49.1% (December 2017: 56.6%).

Net investment income has increased to $9 million (December 2017: $4 million), driven by prior period mark-to-market losses of $11 million over the period on the Tower Limited shareholding that were a one-off. The fixed income portfolio provided a stable return, offset by significant volatility from equities.

The New Zealand Life Insurance business delivered profit after tax of $16 million (December 2017: $15 million). In-force premium grew by 4.0%, supported by strong policy retention.

4. Events subsequent to reporting date

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established on 14 December 2017. The focus of the Royal Commission's hearings has been the actions of financial service entities, inquiring into whether any conduct of financial services entities might have amounted to misconduct and whether any conduct, practices, behaviour or business activities of financial services entities fall below community standards and expectations.

On 1 February 2019 the Commissioner's Final Report (**Final Report**) was presented to the Governor-General. The Final Report sets out 76 policy recommendations to strengthen protections for consumers, small business and rural and regional communities, enhance accountability, ensure strong and effective financial system regulators and further improve consumer and small business access to redress. Suncorp is currently working through the matters raised in the Final Report, including the specific findings referenced to Suncorp. The impact of these to Suncorp will take time to be properly understood.

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

5. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 6 and forms part of the Directors' Report for the half-year ended 31 December 2018.

6. Rounding of amounts

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

Signed in accordance with a resolution of the directors.

C. McLoughlin

CHRISTINE MCLOUGHLIN

Chairman of the Board

14 February 2019

MICHAEL CAMERON

CEO and Managing Director

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

To the Directors of Suncorp Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Suncorp Group Limited for the half-year ended 31 December 2018 there have been:

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

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

KPMG

David Kells

Partner

Sydney

14 February 2019

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2018

	Note	Dec 2018 $M	Dec 2017 $M
Revenue			
Insurance premium income		5,000	4,860
Reinsurance and other recoveries income		715	485
Interest income on financial assets not at fair value through profit or loss	5	1,278	1,258
Interest income on financial assets at fair value through profit or loss	5	239	228
Net gains on financial assets and liabilities at fair value through profit or loss		-	77
Dividend and trust distribution income		20	16
Fees and other income		257	278
Total revenue		7,509	7,202
Expenses			
Claims expense and movement in policyowner liabilities		(3,923)	(3,584)
Outwards reinsurance premium expense		(575)	(561)
Underwriting and policy maintenance expenses		(1,071)	(1,059)
Interest expense on financial assets not at fair value through profit or loss	5	(707)	(671)
Interest expense on financial liabilities at fair value through profit or loss	5	(43)	(45)
Net losses on financial assets and liabilities at fair value through profit or loss		(122)	-
Impairment loss on financial assets	7.2	(7)	(13)
Amortisation and depreciation expense		(86)	(85)
Fees, overheads and other expenses		(469)	(536)
Outside beneficial interests in managed funds		38	(59)
Total expenses		(6,965)	(6,613)
Profit before income tax		544	589
Income tax expense		(155)	(180)
Profit after tax from continuing operations		389	409
(Loss) profit after tax from discontinued operations	15.1	(130)	52
Profit for the period		259	461
Profit for the period attributable to:			
Owners of the Company		250	452
Non-controlling interests		9	9
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges		10	(2)
Net change in financial assets at fair value through other comprehensive income		(6)	-
Net change in fair value of available-for-sale financial assets		-	(3)
Exchange differences on translation of foreign operations		27	(43)
Income tax (expense) benefit		(3)	2
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit plans		(7)	-
Income tax benefit		2	-
Total other comprehensive income for the period		23	(46)
Total comprehensive income for the period		282	415
Total comprehensive income for the period attributable to:			
Owners of the Company		273	406
Non-controlling interests		9	9
Earnings per share		Cents	Cents
Basic earnings per share		19.34	35.12
Diluted earnings per share		19.75	34.66
Basic earnings per share from continuing operations		29.40	31.08
Diluted earnings per share from continuing operations		29.16	30.91

Prior year comparatives have been adjusted for discontinued operations. The consolidated interim statement of comprehensive income is to be read in conjunction with the accompanying notes.

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	Dec 2018 $M	Jun 2018 $M
Assets			
Cash and cash equivalents		1,542	1,165
Receivables due from other banks		351	474
Trading securities		1,540	1,639
Derivatives		420	256
Investment securities		18,570	22,706
Loans and advances	6	59,031	58,598
Premiums outstanding		2,568	2,668
Reinsurance and other recoveries		2,288	2,377
Deferred reinsurance assets		554	834
Deferred acquisition costs		723	706
Gross policy liabilities ceded under reinsurance		17	528
Property, plant and equipment		210	211
Deferred tax assets		210	203
Goodwill and other intangible assets		5,529	5,722
Other assets		1,230	1,246
Assets held for sale	15.3	4,532	-
Total assets		99,315	99,333
Liabilities			
Payables due to other banks		273	148
Deposits and short-term borrowings	8	46,160	45,550
Derivatives		236	207
Amounts due to reinsurers		270	747
Payables and other liabilities		1,493	2,062
Current tax liabilities		31	68
Unearned premium liabilities		5,039	5,036
Outstanding claims liabilities		10,496	10,176
Gross policy liabilities		-	2,721
Deferred tax liabilities		131	129
Managed funds units on issue		956	1,285
Securitisation liabilities	9	4,278	4,848
Debt issues	9	10,602	9,854
Loan capital	9	2,357	2,529
Liabilities held for sale	15.3	3,369	-
Total liabilities		85,691	85,360
Net assets		13,624	13,973
Equity			
Share capital	10	12,880	12,863
Reserves		193	135
Retained profits		536	965
Total equity attributable to owners of the Company		13,609	13,963
Non-controlling interests		15	10
Total equity		13,624	13,973

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

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2018

		Equity attributable to owners of the Company					
	Note	Share capital $M	Reserves $M	Retained profits $M	Total $M	Non-controlling interests $M	Total equity $M
Balance as at 1 July 2018		12,863	135	965	13,963	10	13,973
Impact on initial application of AASB 9 (net of tax)	2.1	-	16	(23)	(7)	-	(7)
Profit for the period		-	-	250	250	9	259
Total other comprehensive income for the period		-	28	(5)	23	-	23
Total comprehensive income for the period		-	28	245	273	9	282
Transactions with owners, recorded directly in equity							
Dividends paid	3	-	-	(622)	(622)	(4)	(626)
Treasury share movements	10	17	-	-	17	-	17
Movement in non-controlling interests without a change in control		-	-	(15)	(15)	-	(15)
Transfers		-	14	(14)	-	-	-
Balance as at 31 December 2018		12,880	193	536	13,609	15	13,624
Balance as at 1 July 2017		12,766	161	855	13,782	8	13,790
Profit for the period		-	-	452	452	9	461
Total other comprehensive income for the period		-	(46)	-	(46)	-	(46)
Total comprehensive income for the period		-	(46)	452	406	9	415
Transactions with owners, recorded directly in equity							
Dividends paid	3	-	-	(516)	(516)	(4)	(520)
Shares issued	10	42	-	-	42	-	42
Share-based payments	10	8	-	-	8	-	8
Treasury share movements	10	4	-	-	4	-	4
Transfers		-	2	(2)	-	-	-
Balance as at 31 December 2017		12,820	117	789	13,726	13	13,739

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

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2018

	Note	Dec 2018 $M	Dec 2017 $M
Cash flows from operating activities			
Premiums received		6,115	5,819
Claims paid		(4,298)	(4,611)
Interest received		1,563	1,506
Interest paid		(736)	(713)
Reinsurance and other recoveries received		880	1,194
Outwards reinsurance premiums paid		(931)	(953)
Fees and other operating income received		315	322
Dividends and trust distributions received		21	32
Fees and operating expenses paid		(2,080)	(1,906)
Income tax paid		(207)	(303)
Net decrease in operating assets			
Trading securities		89	8
Loans and advances		(450)	(2,442)
Net increase in operating liabilities			
Deposits and short-term borrowings		98	463
Net cash from (used in) operating activities		379	(1,584)
Cash flows from investing activities			
Proceeds from the sale or maturity of investment securities		21,338	15,422
Payments for purchase of investment securities		(20,572)	(15,504)
Proceeds from other investing activities		4	1
Payments for other investing activities		(28)	(53)
Net cash from (used in) investing activities		742	(134)
Cash flows from financing activities			
Proceeds from debt issues and securitisation liabilities	9	1,701	3,801
Repayment of debt issues and securitisation liabilities	9	(1,689)	(2,198)
Proceeds from issue of loan capital	9	600	60
Payment on call of loan capital	9	(770)	(245)
Dividends paid		(622)	(474)
Payments for other financing activities		(20)	(18)
Net cash (used in) from financing activities		(800)	926
Net increase (decrease) in cash and cash equivalents		321	(792)
Cash and cash equivalents at the beginning of the period		1,491	2,357
Effect of exchange rate fluctuations on cash held		3	(6)
Cash and cash equivalents at the end of the period		1,815	1,559
Cash and cash equivalents at the end of the period comprises:			
Cash and cash equivalents		1,542	1,143
Cash and cash equivalents held for sale	15.3	195	-
Receivables due from other banks		351	470
Payables due to other banks		(273)	(54)
		1,815	1,559

The consolidated interim statement of cash flows is to be read in conjunction with the accompanying notes and is inclusive of discontinued operations, refer to note 15.2.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

1. Reporting entity

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

The consolidated interim financial statements for the half-year ended 31 December 2018 comprise the Company and its subsidiaries (the **Suncorp Group, Suncorp** or the **Group**) and were authorised for issue by the Board of Directors on 14 February 2019.

The Group's principal activities during the course of the half-year were the provision of insurance and banking and wealth products and services in Australia and New Zealand.

2. Basis of preparation

The consolidated interim financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The consolidated interim financial report does not include all of the information required for a full consolidated annual financial report, and should be read in conjunction with the consolidated financial report of the Suncorp Group for the financial year ended 30 June 2018 and any public announcements made by the Suncorp Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Australian Securities Exchange (**ASX**) Listing Rules. The consolidated financial report of the Suncorp Group for the financial year ended 30 June 2018 is available upon request from the Company's registered office or at suncorpgroup.com.au/investors/reports.

All accounting policies applied by the Group in this consolidated interim financial report are the same as those applied in its consolidated financial report for the financial year ended 30 June 2018, except for changes from the implementation of the new Australian Accounting Standards as set out in note 2.1.

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

Where necessary, comparatives have been re-presented to conform to changes in presentation in the current half-year. This includes changes due to the classification of the Australian life insurance business as discontinued operations under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (**AASB 5**). For details on the sale of the Australian life insurance business refer to note 15.

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

2.1 Implementation of new Australian Accounting Standards

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

AASB 9 *Financial Instruments*

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

(a) Classification and measurement

Financial assets

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

Fair value through profit and loss

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

Amortised cost

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

Fair value through other comprehensive income

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

Modification of contractual cashflows

In cases where borrowers face financial difficulties, Suncorp may grant a change to the terms and conditions of their loan repayments for a specific period to avoid the customers defaulting on their loan. These changes can include payment deferrals, change in amortisation periods, and temporary change in interest rates. Loans restructured on commercial terms with a significant modification of their terms and conditions are considered a re-origination. In this case, the asset will be derecognised and a new asset will be recognised. For modifications that do not result in a derecognition, a modification gain or loss will be calculated based on the difference between the present value of the renegotiated or modified contractual cashflows and the gross carrying amount prior to modification. The present value is determined using the loan's original effective interest rate. Significant increase in credit risk (**SICR**) will continue to be assessed relative to the risk of default on the date of original recognition of the loan.

Financial liabilities

Financial liabilities are classified at amortised cost except for derivatives and those designated FVTPL. The impact of changes in 'own credit risk' for financial liabilities designated at FVTPL will be separated and recorded in OCI instead of profit or loss.

(b) Impairment

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

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

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

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

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

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

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

(c) Hedge accounting

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

(d) Transitional impact on implementation of AASB 9

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

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

— Investment securities: financial assets designated at fair value through profit or loss were reclassified from being designated to ‘financial assets at fair value through profit or loss’.

- Investment securities that were measured as available-for-sale and held-to-maturity were reclassified to FVOCI.
- The impairment provision for loans and advances was remeasured due to adoption of the ECL model.
- Offshore commercial papers disclosed within the consolidated interim statement of financial position caption 'deposits and short-term borrowings' continued to be measured at FVTPL under AASB 9; however fair value changes resulting from the issuer's own credit risk will be recognised in other comprehensive income, with all other changes in fair value continuing to be recognised in profit and loss.

No financial assets or liabilities classified as FVTPL under AASB 139 were reclassified to amortised cost or FVOCI under AASB 9. There were no other changes to the classification and measurement of other financial assets or liabilities not listed above and as disclosed in note 36.21 of the consolidated financial report for the financial year ended 30 June 2018.

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

	Trading and investment securities $M	Gross loans and advances $M	Provision for impairment on loans and advances $M	Reserves $M	Retained profits $M
Closing balance as at 30 June 2018 under AASB 139	24,345	58,728	130	135	965
Closing balance is comprised of:					
FVTPL (mandatory)	1,639	-	-	-	-
FVTPL (designated)	18,648	-	-	-	-
Available-for-sale	3,544	-	-	6	-
Held-to-maturity	514	-	-	-	-
Amortised cost	-	58,728	-	-	-
Equity reserve for credit losses	-	-	-	88	-
Other reserves	-	-	-	41	-
Reclassification on 1 July 2018					
From FVTPL (designated) (AASB 139)[1]	(18,648)	-	-	-	-
From available-for-sale (AASB 139)[2]	(3,544)	-	-	(6)	-
From held-to-maturity (AASB 139)[3]	(514)	-	-	-	-
To FVOCI - debt instrument (AASB 9)[2&3]	4,058	-	-	6	-
To FVTPL (mandatory) (AASB 9)[1]	18,648	-	-	-	-
Remeasurement on 1 July 2018					
From held-to-maturity at amortised cost (AASB 139) to FVOCI (debt instrument)[3]	10	-	-	7	-
Increase in expected credit losses[4]	-	-	20	9	(23)
Opening balance as at 1 July 2018 under AASB 9	24,355	58,728	150	151	942
Opening balance is comprised of:					
FVTPL (mandatory)	20,287	-	-	-	-
FVOCI - debt instrument	4,068	-	-	13	-
Amortised cost	-	58,728	-	-	-
Equity reserve for credit losses	-	-	-	97	-
Other reserves	-	-	-	41	-

1 Investment securities held by the insurance business were designated at FVTPL under AASB 139 as they are linked to insurance liabilities at FVTPL to reduce an accounting mismatch. This designation has been revoked under AASB 9 and the assets are mandatorily classified as FVTPL as they are managed on a fair value basis.

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

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

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

AASB 15 *Revenue from Contracts with Customers*

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

2.2 Use of estimates and judgments

The preparation of consolidated interim 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.

The significant judgments made by management in applying the Suncorp Group accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial report as at and for the financial year ended 30 June 2018 except for new significant judgments and key sources of estimation uncertainty related to the application of AASB 9 as outlined in note 2.1 and the matters outlined in note 13 Contingent assets and liabilities.

The changes in estimates and the movements over the half-year ended 31 December 2018 for the provision for impairment and carrying amounts of different stages of assets are set out in note 7.

Due to the planned sale of the Australian life insurance business, the corresponding goodwill has been measured applying AASB 5. The value of the discontinued operation has been recorded at the lower of its carrying amount and the fair value less costs to sell. This led to a write-off of the corresponding goodwill.

3. Dividends

	Dec 2018		Dec 2017	
	Cents per share	$M	Cents per share	$M
Dividend payments on ordinary shares				
2018 final dividend (December 2017: 2017 final dividend)	40	519	40	517
2018 special dividend (December 2017: 2017 special dividend)	8	104	-	-
Dividends paid on treasury shares		(1)		(1)
Total dividends on ordinary shares paid to owners of the Company	48	622	40	516
Dividends not recognised in the consolidated interim statement of financial position[1]				
Dividends determined since balance date				
2019 interim dividend (December 2017: 2018 interim dividend)	26	338	33	428

1 The total 2019 interim dividends on ordinary shares determined but not recognised in the consolidated interim statement of financial position are estimated based on the total number of ordinary shares on issue without taking into account treasury shares as at 31 December 2018. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2019 will be based on the actual number of ordinary shares on issue net of treasury shares on the record date.

4. Segment reporting

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

4.1 Operating segments

The Suncorp Group comprises the following operating segments.

Reportable segments	Segment information
Insurance	– Design, manufacture and delivery of general and life insurance products and services to customers in Australia. – Key products include home and contents, motor, marine, travel, commercial property, industrial special risk, public liability and professional indemnity, workers' compensation, compulsory third party, loan protection, equity and cash benefit, life, trauma, total and permanent disablement and income protection. – This segment also includes managed funds and joint ventures, for example on health and pet insurance.
Banking & Wealth	– Design, manufacture and delivery of banking and wealth products and services to customers in Australia. – Key products include home, agribusiness, commercial, personal and small business loans, savings and transaction accounts, foreign exchange, treasury products and services, superannuation, funds administration services and financial planning.
Suncorp New Zealand	– Design, manufacture and delivery of general and life insurance products to customers in New Zealand. – Key products include home and contents, motor, commercial property, public liability and professional indemnity, life, trauma, total and permanent disablement and income protection.
Corporate	– Investment of the Suncorp Group's capital, Suncorp Group business strategy activities (including business combinations and divestments) and Suncorp Group shared services.

Only profit or loss information is reviewed by the CODM at an operating segment level.

The basis of measurement of segment results are generally the same as those applied by the Suncorp Group in its consolidated financial report for the financial year ended 30 June 2018, with the exception of the discontinued operations being measured under AASB 5. The planned sale of the Australian life insurance business will impact both the Insurance and Banking & Wealth segment. Goodwill is held within the Corporate segment, however, in the following table allocated to each operating segment on a consistent basis to goodwill impairment testing. The write-off of goodwill and transaction costs will be incurred in the Corporate segment. For details on the sale of the Australian life insurance business refer to note 15.

	Insurance $M	Banking & Wealth $M	Suncorp New Zealand $M	Corporate $M	Total $M
Half-year ended 31 December 2018					
External revenue	5,730	1,466	937	15	8,148
Inter-segment revenue	7	1	3	-	11
Total segment revenue	5,737	1,467	940	15	8,159
Segment revenue continuing operations	5,153	1,425	940	15	7,533
Segment revenue discontinued operations	584	42	-	-	626
Segment profit (loss) before income tax	177	216	154	(199)	348
Segment income tax (expense) benefit	(42)	(10)	(43)	6	(89)
Segment profit (loss) after income tax	135	206	111	(193)	259
Segment profit (loss) after tax continuing operations	133	183	111	(38)	389
Segment profit (loss) after tax discontinued operations	2	23	-	(155)	(130)
Other segment disclosures					
Impairment of goodwill	-	-	-	(145)	(145)
Goodwill	4,195	254	286	-	4,735
Half-year ended 31 December 2017					
External revenue	5,403	1,501	863	8	7,775
Inter-segment revenue	6	-	3	18	27
Total segment revenue	5,409	1,501	866	26	7,802
Segment revenue continuing operations	4,857	1,416	866	26	7,165
Segment revenue discontinued operations	552	85	-	-	637
Segment profit (loss) before income tax	373	291	92	(81)	675
Segment income tax (expense) benefit	(109)	(94)	(31)	20	(214)
Segment profit (loss) after income tax	264	197	61	(61)	461
Segment profit (loss) after tax continuing operations	222	189	61	(63)	409
Segment profit (loss) after tax discontinued operations	42	8	-	2	52
Other segment disclosures					
Goodwill	4,309	285	280	-	4,874

4.2 Reconciliation of reportable segment revenues and profit before income tax

	Dec 2018	Dec 2017	Dec 2018	Dec 2017
	Revenue		Profit before income tax	
	$M	$M	$M	$M
Segment total	8,159	7,802	348	675
Elimination of intra-group investment income	(17)	50	1	2
Other consolidation eliminations	(7)	(13)	(1)	(2)
Attributable to discontinued operations	(626)	(637)	196	(86)
Consolidated total	7,509	7,202	544	589

5. Net interest income

	Dec 2018 $M	Dec 2017 $M
Interest income		
Cash and cash equivalents	4	3
Receivables due from other banks	1	2
Investment securities not at fair value through profit or loss[1]	65	78
Loans and advances	1,208	1,174
Other financial assets at amortised cost	-	1
Interest income on financial assets and liabilities not at fair value through profit or loss	1,278	1,258
Trading securities	15	13
Investment securities at fair value through profit or loss	224	215
Interest income on financial assets and liabilities at fair value through profit or loss	239	228
Total interest income	1,517	1,486
Interest expense		
Deposits and short-term borrowings at amortised cost	(420)	(417)
Securitisation liabilities	(73)	(54)
Debt issues	(155)	(140)
Loan capital	(59)	(60)
Interest expense on financial assets and liabilities not at fair value through profit or loss	(707)	(671)
Deposits and short-term borrowings designated at fair value through profit or loss	(27)	(19)
Derivatives	(16)	(26)
Interest expense on financial assets and liabilities at fair value through profit or loss	(43)	(45)
Total interest expense	(750)	(716)
Net interest income	767	770

1 Investment securities were classified as available-for-sale and held-to-maturity for the financial year ended 30 June 2018 and the entire balance transitioned into fair value through other comprehensive income in the period ended 31 December 2018.

6. Loans and advances

	Note	Dec 2018 $M	Jun 2018 $M
Financial assets at amortised cost			
Housing loans		47,982	47,604
Consumer loans		162	175
Business loans		11,026	10,937
Other lending		6	12
Gross loans and advances		59,176	58,728
Provision for impairment	7.1	(145)	(130)
Net loans and advances		59,031	58,598
Current		10,897	10,831
Non-current		48,134	47,767
Net loans and advances		59,031	58,598

7. Provision for impairment on financial assets

7.1 Reconciliation of provision for impairment on financial assets

The table below shows the reconciliation of the new ECL for the period ended 31 December 2018.

	Collective provision				
	Stage 1 - 12-month ECL $M	Stage 2 - Lifetime ECL $M	Stage 3 - Lifetime ECL $M	Stage 3 - Specific provision $M	Total $M
Total provision for impairment on loans and advances as at 1 July 2018[1]	37	37	29	39	142
Transfers:					
Transfer to stage 1	7	(6)	(1)	-	-
Transfer to stage 2	(1)	6	(5)	-	-
Transfer to stage 3	-	(4)	1	3	-
New and increased provisions	13	16	15	8	52
Write-back of provisions no longer required	(21)	(14)	(6)	(8)	(49)
Specific provisions written-off	-	-	-	(6)	(6)
Unwind of discount	-	-	-	(2)	(2)
Total provision for impairment on loans and advances as at 31 December 2018	35	35	33	34	137
Total provision for impairment on commitments and guarantees as at 1 July 2018[1]	7	1	-	-	8
New and increased provisions	3	1	-	-	4
Write-back of provisions no longer required	(4)	-	-	-	(4)
Total provision for impairment on commitments and guarantees as at 31 December 2018	6	2	-	-	8
Total provision for impairment as at 31 December 2018	41	37	33	34	145

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

As stated in note 2, the 31 December 2017 and 30 June 2018 prior period comparatives have not been restated and are shown below. Note 2.1 provides a reconciliation of the impact on the transition to AASB 9.

	Half-year to	
	Jun 2018 $M	Dec 2017 $M
Collective provision		
Balance at the beginning of the period	94	96
Write-back against impairment losses	(3)	(2)
Balance at the end of the period	91	94
Specific provision		
Balance at the beginning of the period	37	44
New and increased individual provisioning	18	19
Write-back of provisions no longer required	(8)	(7)
Impaired provision written off	(6)	(17)
Unwind of discount	(2)	(2)
Balance at the end of the period	39	37
Total provision for impairment	130	131

The following table shows the effect of movements in the gross carrying amount of loans and advances in different stages during the half-year ended 31 December 2018.

	Stage 1 - 12-month ECL $M	Stage 2 - Lifetime ECL $M	Stage 3 - Lifetime collective ECL $M	Stage 3 - Specific provision $M	Total $M
Gross carrying amount as at 1 July 2018	56,130	1,907	580	111	58,728
Transfers:					
Transfer to stage 1	591	(568)	(22)	(1)	-
Transfer to stage 2	(945)	1,075	(130)	-	-
Transfer to stage 3	(95)	(198)	258	35	-
New loans and advances originated or purchased	4,904	-	-	-	4,904
Loans and advances derecognised during the period including write-offs	(4,128)	(223)	(77)	(28)	(4,456)
Gross carrying amount as at 31 December 2018	56,457	1,993	609	117	59,176
Provision for impairment	(41)	(37)	(33)	(34)	(145)
Net carrying amount as at 31 December 2018	56,416	1,956	576	83	59,031

7.2 Impairment loss on financial assets

		Half-year to	
	Dec 2018 $M	Jun 2018 $M	Dec 2017 $M
Increase (decrease) in collective provision for impairment	-	(3)	(2)
Increase in specific provision for impairment	3	10	12
Bad debts written off	4	9	4
Bad debts recovered	-	(2)	(1)
Total impairment loss on loans and advances	7	14	13

8. Deposits and short-term borrowings

	Dec 2018 $M	Jun 2018 $M
Financial liabilities at amortised cost		
Call deposits	20,857	19,796
Term deposits	18,027	18,272
Short-term securities issued	5,165	5,442
Total financial liabilities at amortised cost	44,049	43,510
Financial liabilities designated at fair value through profit or loss		
Offshore commercial papers	2,111	2,040
Total deposits and short-term borrowings	46,160	45,550
Current	45,982	45,308
Non-current	178	242
Total deposits and short-term borrowings	46,160	45,550

Deposits and short-term borrowings obtained under repurchase agreements with the Reserve Bank of Australia and outstanding at 31 December 2018 are $301 million (30 June 2018: $301 million).

9. Issues and repayments of debt securities

	Liabilities arising from operating activities	Liabilities arising from financing activities		
	Offshore commercial papers[1] $M	Securitisation liabilities $M	Debt issues $M	Loan capital $M
Balance as at 1 July 2018	2,040	4,848	9,854	2,529
Cash flows				
Proceeds	1,555	-	1,701	600
Repayments	(1,594)	(571)	(1,118)	(770)
Transaction costs	-	-	-	(4)
Non-cash changes	110	1	165	2
Balance as at 31 December 2018	2,111	4,278	10,602	2,357
Balance as at 1 July 2017	2,469	3,088	9,216	2,714
Cash flows				
Proceeds	2,196	1,500	2,301	60
Repayments	(2,446)	(475)	(1,723)	(245)
Transaction costs	-	(2)	-	(6)
Non-cash changes	44	-	(72)	4
Balance as at 31 December 2017	2,263	4,111	9,722	2,527

1 Disclosed within the consolidated interim statement of financial position category of ‘Deposits and short-term borrowings’.

On 5 September 2018, the Company issued $600 million of Wholesale Subordinated Notes for $10,000 per note. They are fully paid, cumulative, unsecured, subordinated notes, with a maturity date of 5 December 2028, with the option to redeem the notes on the early redemption date of 5 December 2023, subject to APRA approval. If APRA determines that a non-viability event has occurred in relation to the Company, some or all of the subordinated notes will be immediately converted into a variable number of the Company’s ordinary shares.

Subordinated notes are disclosed within the consolidated interim statement of financial position category of ‘Loan capital’.

10. Share capital

	Number of ordinary shares	Issued capital $M	Share-based payments $M	Treasury shares $M	Total share capital $M
Balance as at 1 July 2018	1,298,503,953	12,874	84	(95)	12,863
Treasury share movements	-	-	-	17	17
Balance as at 31 December 2018	1,298,503,953	12,874	84	(78)	12,880
Balance as at 1 July 2017	1,292,699,888	12,797	74	(105)	12,766
Shares issued	3,320,490	42	-	-	42
Share-based payments	-	-	8	-	8
Treasury share movements	-	-	-	4	4
Balance as at 31 December 2017	1,296,020,378	12,839	82	(101)	12,820

11. Fair value of financial instruments

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

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

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

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

Financial assets and liabilities measured at fair value

The following table presents the financial assets and liabilities that are measured at fair value categorised by fair value hierarchy. It only contains assets and liabilities that are not held for sale as part of the continuing operations.

		Dec 2018				Jun 2018			
	Note	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets									
Trading securities		-	1,540	-	1,540	-	1,639	-	1,639
Fair value through profit or loss[1,2]		2,651	11,688	259	14,598	5,080	13,116	452	18,648
Fair value through other comprehensive income[1]		-	3,972	-	3,972	-	-	-	-
Available-for-sale financial assets[1]		-	-	-	-	-	3,544	-	3,544
Derivatives		18	402	-	420	14	242	-	256
		2,669	17,602	259	20,530	5,094	18,541	452	24,087
Financial liabilities									
Offshore commercial papers[3]	8	-	2,111	-	2,111	-	2,040	-	2,040
Derivatives		29	207	-	236	14	193	-	207
Managed funds units on issue		-	956	-	956	-	1,285	-	1,285
		29	3,274	-	3,303	14	3,518	-	3,532

1 Disclosed within the consolidated interim statement of financial position category of 'Investment securities'.

2 The Level 3 financial assets relate to investments in unlisted equity securities and infrastructure assets.

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

There have been no significant transfers between Level 1 and Level 2 during the current or prior half-year.

Level 3 financial assets consist of investments in unlisted equity securities of $11 million (30 June 2018: $11 million) and investments in infrastructure assets (held via unlisted trusts) of $248 million (30 June 2018: $441 million).

There have been no remeasurements through profit or loss during the current or prior half-year in relation to the investments in unlisted equity securities classified at Level 3.

The fair value of investments in infrastructure assets (held via unlisted trusts) classified at Level 3 is determined by the Group's share of the reported net asset value of the unlisted trusts, as advised by the external investment manager. The infrastructure assets held in the unlisted trusts are independently valued in accordance with AASB 13 *Fair value measurement*. During the financial year, additional units were purchased for $38 million (2017: $66 million) and fair value loss of $2 million (2017: $41 million gain) was recognised through 'Net gains on financial assets and liabilities at fair value through profit or loss'. No sales were made in the current or prior financial years.

Financial assets and liabilities not measured at fair value

The table below discloses a comparison of carrying value and fair value of financial assets and liabilities that are not measured at fair value after initial recognition, where their carrying value is not a reasonable approximation of fair value. The significant assumptions and estimates used in determining their fair values are consistent with those used in the financial year ended 30 June 2018.

			Fair value			
	Note	Carrying value $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 31 December 2018						
Financial assets						
Loans and advances	6	59,031	-	-	59,079	59,079
		59,031	-	-	59,079	59,079
Financial liabilities						
Deposits and short-term borrowings at amortised cost	8	44,049	-	44,068	-	44,068
Securitisation liabilities	9	4,278	-	4,287	-	4,287
Debt issues	9	10,602	-	10,655	-	10,655
Loan capital	9	2,357	1,183	1,236	-	2,419
		61,286	1,183	60,246	-	61,429
As at 30 June 2018						
Financial assets						
Held-to-maturity investments[1]		514	-	524	-	524
Loans and advances	6	58,598	-	-	58,609	58,609
		59,112	-	524	58,609	59,133
Financial liabilities						
Deposits and short-term borrowings at amortised cost	8	43,510	-	43,512	-	43,512
Securitisation liabilities	9	4,848	-	4,877	-	4,877
Debt issues	9	9,854	-	9,919	-	9,919
Loan capital	9	2,529	1,940	642	-	2,582
		60,741	1,940	58,950	-	60,890

1 Under AASB 9 and from 1 July 2018, held-to-maturity investments previously measured at amortised cost are measured at fair value through other comprehensive income.

12. Related parties

Arrangements for related parties continue to be in place as disclosed in the Group's consolidated financial report for the financial year ended 30 June 2018.

13. Contingent assets and liabilities

There have been no material changes in contingent assets or contingent liabilities since 30 June 2018 other than the matter noted in note 16 Subsequent events.

14. Share-based payments

The Short-term incentives (**STI**) are offered to the CEO, Senior Leadership Team (**SLT**) and Executive General Manager (**EGM**) level roles as part of their remuneration package under the Suncorp Equity-Based Deferral Plan. On 10 August 2018, 547,802 (December 2017: 657,583) equity-settled rights were offered under STI arrangements at a total fair value of $8,543,000 (December 2017: $8,577,000). Total STI deferred into equity-settled rights expensed for the half-year ended 31 December 2018 is $4,194,000 (December 2017: $4,111,000).

The Long-term incentives (**LTI**) are performance rights granted to the CEO, SLT and other eligible employees as part of their remuneration package under the Suncorp Group Equity Incentives Plan. In September 2018, 733,584 (December 2017: 1,053,282) performance rights were offered under LTI arrangements at a total fair value of $6,176,000 (December 2017: $6,046,000). Total LTI expensed for the half-year ended 31 December 2018 is $2,456,000 (December 2017: $2,521,000).

The LTI share rights (formerly restricted shares) are granted to employees in senior roles below executive level. During the half-year ended 31 December 2018, 179,325 (December 2017: 199,256) share rights were offered at a total fair value of $2,747,000 (December 2017: $2,593,000). Total share rights expensed for the half-year ended 31 December 2018 is $1,538,000 (December 2017: $3,152,000).

Expenses relating to share-based payments are included in ‘Fees, overheads and other expenses’ in the consolidated interim statement of comprehensive income.

15. Sale of the Australian life insurance business

On 9 August 2018, Suncorp announced its intention to sell the Australian life insurance business (Suncorp Life & Superannuation Ltd (**SLSL**)) to TAL Dai-ichi Life Australia Pty Limited (**TAL**). To continue to provide a range of life insurance solutions to Suncorp’s customers, an exclusive 20-year strategic alliance with TAL will be entered into on completion of the sale. On 3 September 2018, a legally binding share sale deed was signed with consideration made up of $640 million in cash payable on completion and completion adjustments to net worth, based on mechanisms and timelines agreed under the share sale deed. Based on the latest forecasts of adjusted net worth, total consideration is approximately $725 million.

Completion of the transaction is expected by 28 February 2019, subject to the satisfaction of certain conditions and regulatory approvals in Australia and Japan. Under AASB 5, SLSL has been classified as discontinued operations from 3 September 2018. The standard requires the measurement of the assets held for sale at the lower of its carrying amount and fair value less costs to sell, but AASB 5 limits this to assets and liabilities not measured by other accounting standards. The transaction has resulted in the write-off of the goodwill for SLSL of $145 million as at 31 December 2018.

As shown in note 4.1, SLSL impacts revenue and expenses across multiple operating segments. The table below shows the profit and loss from discontinued operations for the period ended 31 December 2018 and the comparative period. It contains the revenue, expenses and profit after tax for SLSL, less expenses driven by the sale, for example the impairment of the goodwill of SLSL, consolidation adjustments from intercompany transactions and transaction and separation costs incurred up to 31 December 2018.

An indicative total net loss after tax on sale of $880 million is anticipated as a result of the transaction. This includes $145m of goodwill written off as at 31 December 2018, with the balance (estimated $735 million) to be recognised at the date of completion. The final loss on sale will be determined on completion and will be impacted by the business performance, transaction and separation costs and final taxation impacts. Based on the expected consideration and indicative net loss as outlined above, the Group estimates a capacity to return approximately $600 million capital to its shareholders from the proceeds of the sale of the Australian life insurance business. Any decision to return capital will only be made following completion of the transaction.

15.1 Profit and loss from discontinued operations

	Dec 2018 $M	Dec 2017 $M
Revenue	626	637
Operating expenses	(667)	(553)
Net (loss) profit before income tax	(41)	84
Income tax benefit (expense)	66	(34)
Profit after tax from SLSL	25	50
Impairment of goodwill	(145)	-
Consolidation adjustments	-	2
Transaction and separation costs	(10)	-
(Loss) profit after tax from discontinued operations	(130)	52

15.2 Cash flows from discontinued operations

The table below presents the net cash from (used in) operating, investing and financing activities for discontinued operations for the period ended 31 December 2018 and the comparative period. It contains the cash flows for SLSL, plus the incurred transaction and separation costs, which are part of the net cash used in investing activities.

	Dec 2018 $M	Dec 2017 $M
Net cash from (used in) operating activities	20	(77)
Net cash from investing activities	174	9
Net cash (used in) from financing activities	(100)	35
Net cash inflows (outflows) from discontinued operations	94	(33)

15.3 Assets and liabilities held for sale

The table below shows the assets and liabilities classified as held for sale in Suncorp Group's consolidated interim statement of financial position for the period ended 31 December 2018. Prior period comparatives are not required under AASB 5.

Balances as at 31 December 2018	Assets and liabilities held for sale at Suncorp Group $M
Assets classified as held for sale	
Cash and cash equivalents	195
Investment securities	3,606
Gross policy liabilities ceded under reinsurance	503
Other assets	228
Total assets	4,532
Liabilities classified as held for sale	
Gross policy liabilities	2,485
Unvested policyowner benefit liabilities	289
Policy claims in process of settlement	184
Managed funds units on issue	197
Other liabilities	214
Total liabilities	3,369

16. Subsequent events

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established on 14 December 2017. The focus of the Royal Commission's hearings has been the actions of financial service entities, inquiring into whether any conduct of financial services entities might have amounted to misconduct and whether any conduct, practices, behaviour or business activities of financial services entities fall below community standards and expectations.

On 1 February 2019 the Commissioner's Final Report (**Final Report**) was presented to the Governor-General. The Final Report sets out 76 policy recommendations to strengthen protections for consumers, small business and rural and regional communities, enhance accountability, ensure strong and effective financial system regulators and further improve consumer and small business access to redress. Suncorp is currently working through the matters raised in the Final Report, including the specific findings referenced to Suncorp. The impact of these to Suncorp will take time to be properly understood.

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

DIRECTORS' DECLARATION

The directors of Suncorp Group Limited (the **Company**) declare that in their opinion:

1. The consolidated interim financial statements and notes set out on pages 7 to 27, are in accordance with the *Corporations Act 2001*, including:
   a. giving a true and fair view of the Suncorp Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
   b. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

CHRISTINE MCLOUGHLIN

Chairman

14 February 2019

MICHAEL CAMERON

CEO and Managing Director

Independent Auditor's Review Report

To the shareholders of Suncorp Group Limited

Conclusion

We have reviewed the accompanying ***Consolidated interim financial report*** of Suncorp Group Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Consolidated interim financial report of Suncorp Group Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Consolidated interim financial report*** comprises:

- Consolidated interim statement of financial position as at 31 December 2018;
- Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date;
- Notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' declaration.

The ***Group*** comprises Suncorp Group Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibilities of the Directors for the Consolidated interim financial report

The Directors of the Company are responsible for:

- the preparation of the Consolidated interim financial report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- for such internal control as the Directors determine is necessary to enable the preparation of the Consolidated interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Consolidated interim financial report

Our responsibility is to express a conclusion on the Consolidated interim financial report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Consolidated interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134* Interim Financial Reporting and the *Corporations Regulations 2001*. As auditor of Suncorp Group Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Consolidated interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

KPMG

David Kells
Partner
Sydney
14 February 2019

Tanya Gilerman
Partner