



Suncorp Life & Superannuation Limited

ABN 87 073 979 530

Directors' report & financial report

for the financial year ended
30 June 2014

One Company
Many Brands



Suncorp Life & Superannuation Limited

ABN: 87 073 979 530

Directors' report & financial report

for the financial year end 30 June 2014

Contents

Directors' report	1
Lead auditor's independence declaration	4
Statement of comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9
1. Reporting entity	9
2. Basis of preparation	9
3. Significant accounting policies	10
4. Life policy liabilities	16
5. Risk management and financial instruments	20
6. Premium revenue	32
7. Investment revenue	33
8. Revenue from operating activities	33
9. Claim expense	33
10. Operating expenses	34
11. Operating results	34
12. Taxation	35
13. Cash and cash equivalents	36
14. Receivables	36
15. Investment securities	37
16. Derivative financial instruments	38
17. Payables	38
18. Deposits and short-term borrowings	39
19. Subordinated notes	39
20. Policy liabilities	40
21. Share capital	42
22. Dividends	43
23. Reconciliation of cash flows from operating activities	43
24. Auditors' remuneration	43
25. Contingent liabilities	44
26. Summary of shareholder's interests	44
27. Reconciliation to <i>Life Act</i> operating profits and retained profit of statutory funds	45
28. Capital requirements of the Company	47
29. Statement of sources of operating profit	48
30. Asset restrictions, managed assets and trustee activities	48
31. Segment information	49
32. Statutory funds segment information	49
33. Subsidiaries	53
34. Key management personnel	54
35. Related parties	55
36. Master netting or similar arrangements	56
37. Subsequent events	56
Directors' declaration	57
Independent auditor's report to members	58

Directors' report

Your directors present their report together with the financial report for Suncorp Life & Superannuation Limited (**the Company**) for the year ended 30 June 2014.

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
Ilana R Atlas	Director 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
Dr Douglas F McTaggart	Director since 2012
Geoffrey T Ricketts CNZM	Director since 2007

Executive

Patrick J R Snowball (Managing Director)	Director since 2009
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Principal activities

The principal activities of the Company during the course of the year were the provision of life insurance, superannuation and investment products and related services to the retail, corporate and commercial sectors. There were no significant changes in the nature of the activities carried out by the Company during the year.

Operating and financial review

Overview of the Company

The Australian life insurance market has remained challenging over the past year with continued deterioration in lapses and claims experience impacting overall industry profitability. These challenges have impacted the Company and have been recognised by significantly strengthening the assumptions underlying the policy liability valuations at 30 June 2014.

The resulting operating loss after income tax for the financial year was \$95.2 million (2013: profit after income tax \$40.6 million) and reflects the impact of the changes in policy liabilities.

During the year, the Company completed a number of risk reduction and capital initiatives, including the revision of reinsurance terms and the issue of subordinated notes. These capital initiatives have contributed to the payment of dividends totalling \$508.0 million.

Further, the Direct Life business was brought in-house, with all new policies now sold and serviced by Suncorp employees on Suncorp systems, rather than through an external partner.

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

Significant changes in state of affairs

The 'Overview of the Company' section above provides an overview of the challenges in the Australian life insurance market that has led to a significant strengthening of the assumptions underlying the policy liability valuations, as well as the capital initiatives undertaken during the financial year.

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

Directors' report (continued)

Environmental regulation

The operations of the Company are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Company has not incurred any liability (including for rectification costs) under any environmental legislation.

Dividends

A final dividend of \$158.0 million (\$1.22 per share) was declared and paid in August 2013 in respect of the 2013 financial year.

Three interim dividends totalling \$350.0 million were paid during the 2014 financial year (2013: \$nil). The interim dividends were paid as a result of initiatives that created capital in excess of regulatory requirements. These interim dividend payments were approved by APRA.

Further details of dividends paid are set out in the note 22 to the financial statements.

Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the 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.

Likely developments

Information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Indemnification and insurance of officers

Indemnification

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

Insurance premiums

During the financial year ended 30 June 2014 the ultimate parent entity, 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.

Directors' report (continued)

Lead auditor's independence declaration

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

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1988 and in accordance with that Class Order, amounts in the Directors' Report and the financial report have been rounded off to the nearest hundred thousand dollars unless otherwise stated.

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

Dr Zygmunt E Switkowski AO

Director

Patrick J R Snowball

Managing Director and Group CEO

13 August 2014



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

To: the directors of 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 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.


KPMG


Paul Reid
Partner

Brisbane
13 August 2014

Statement of comprehensive income

for the financial year ended 30 June 2014

	Note	2014 \$m	2013 \$m
Revenue			
Premium revenue	6	747.5	680.7
Less: Outwards reinsurance premium expense		(40.9)	(155.1)
Net premium revenue		706.6	525.6
Investment revenue	7	735.8	802.8
Other revenue	8	10.3	8.2
Net revenue		1,452.7	1,336.6
Claims and expenses			
Claims expense	9	(495.1)	(439.3)
Less: reinsurance claim recoveries	8	201.6	174.7
Net claims expense		(293.5)	(264.6)
Operating expenses	10	(372.5)	(338.8)
Finance costs		(5.0)	-
Change in life insurance contract policy liabilities	20(b),(e)	(549.8)	(163.0)
Change in life investment contract liabilities	20(c)	(375.8)	(464.1)
Change in unvested policyholder benefits liabilities	20(d)	58.0	(2.6)
Net claims and expenses		(1,538.6)	(1,233.1)
(Loss) / profit before income tax		(85.9)	103.5
Income tax expense	12(a)	(9.3)	(62.9)
(Loss) / profit for the financial year		(95.2)	40.6
Total comprehensive (loss) / income for the financial year		(95.2)	40.6

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

Statement of financial position

as at 30 June 2014

	Note	2014 \$m	2013 \$m
Assets			
Cash and cash equivalents	13	384.7	329.8
Receivables	14	190.2	146.5
Premium receivable		3.1	21.7
Investment securities	15	6,437.9	6,507.6
Derivative assets	16	5.8	0.3
Life insurance policy liabilities ceded under reinsurance	20(e)	502.6	436.7
Deferred tax assets	12(c)	23.9	-
Total assets		7,548.2	7,442.6
Liabilities			
Payables	17	292.4	187.3
Premiums in advance		5.6	9.6
Deposits and short-term borrowings	18	29.7	30.9
Derivative liabilities	16	6.9	11.8
Life insurance contract liabilities	20(b)	2,452.5	1,926.6
Life investment contract liabilities	20(c)	3,258.2	3,190.8
Unvested policyholder benefits liability	20(d)	305.3	363.3
Deferred tax liabilities	12(c)	-	21.5
Subordinated notes	19	100.0	-
Total liabilities		6,450.6	5,741.8
Net assets		1,097.6	1,700.8
Equity			
Share capital	21	663.7	663.7
Retained earnings		433.9	1,037.1
Total equity		1,097.6	1,700.8

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

Statement of changes in equity

as at 30 June 2014

	Note	Share capital \$m	Retained earnings \$m	Total equity \$m
Balance at 1 July 2012		556.7	1,176.5	1,733.2
Profit for the financial year		-	40.6	40.6
Total comprehensive income		-	40.6	40.6
Transactions with owners, recorded directly in equity				
Contribution by and distribution to owners:				
Capital injection	21	115.0	-	115.0
Capital redemption	21	(8.0)	-	(8.0)
Dividends paid to shareholder	22	-	(180.0)	(180.0)
Balance at 30 June 2013 / 1 July 2013		663.7	1,037.1	1,700.8
Loss for the financial year		-	(95.2)	(95.2)
Total comprehensive income		-	(95.2)	(95.2)
Transactions with owners, recorded directly in equity				
Distribution to owners:				
Dividends paid to shareholder	22	-	(508.0)	(508.0)
Balance at 30 June 2014		663.7	433.9	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 year ended 30 June 2014

	2014	2013
Note	\$m	\$m
Cash flows from operating activities		
Premiums received	1,047.2	1,046.9
Fee income received	10.3	8.2
Reinsurance premiums paid	(44.8)	(179.2)
Claims payments under policies paid	(1,140.4)	(1,368.2)
Reinsurance and other recoveries received	183.8	164.7
Operating expenses paid	(400.4)	(376.5)
Investment income received	491.7	330.4
Income tax paid	(22.6)	(94.3)
Net cash from (used in) operating activities	23	(468.0)
Cash flows from investing activities		
Purchases of investment securities	(3,115.5)	(2,328.2)
Proceeds from sale of investment securities	3,427.3	2,525.1
Net movement in loans	27.5	(11.0)
Net cash from investing activities	339.3	185.9
Cash flows used in financing activities		
Net increase in share capital	21	-
Net increase in deposits and other borrowings	(1.2)	18.9
Proceeds from issue of subordinated notes	19	100.0
Dividends paid	22	(508.0)
Net cash used in financing activities	(409.2)	(54.1)
Net decrease in cash and cash equivalents	54.9	(336.2)
Cash and cash equivalents at the beginning of the financial year	329.8	666.0
Cash and cash equivalents at the end of the financial year	13	329.8

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

Notes to the financial statements

1. Reporting entity

Suncorp Life & Superannuation Limited (**the Company**) is a company domiciled in Australia and the address of the Company's registered office is Level 28, Brisbane Square, 266 George Street, Brisbane, QLD, 4000.

The financial statements of the Company are separate financial statements, and were authorised for issue by the Board of Directors on 13 August 2014.

The exemption from consolidation in accordance with AASB 10 *Consolidated Financial Statements* has been applied for the year ended 30 June 2014. Consolidated financial statements have not been prepared as the Company has no publicly traded debt or equity instruments and its ultimate parent entity prepares consolidated financial statements for public use. The consolidated financial statements of the ultimate parent entity, Suncorp Group Limited, a company domiciled in Australia, are available from the ultimate parent entity's registered office, being Level 28, Brisbane Square, 266 George Street, Brisbane, QLD 4000.

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 is required by relevant accounting standards.

Significant accounting policies applied in the preparation of these financial statements are set out in note 3.

The Company has adopted the following new standards and amendments to standards, that have not had a material impact on the Company.

a) AASB 7 *Financial Instruments – Disclosures*

As a result of these requirements, the Company has expanded its disclosures about the offsetting of financial assets and financial liabilities in note 36.

b) AASB 13 *Fair Value Measurement*

The AASB establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other AASBs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7. As a result, the Company has included additional disclosures in this regard in note 5.

The risk management objectives and structure including the risk management of exposure arising from financial instruments are detailed in note 5.

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 in Australian dollars has been rounded to the nearest one hundred thousand unless otherwise stated.

2.1. Statement of compliance

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

2.2. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements. 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 may be recognised in the period in which the estimate is revised. Significant estimates, judgements and assumptions are discussed in the following notes:

- Life policy liabilities in note 4
- Valuation of financial instruments and fair value hierarchy disclosures in note 5

Notes to the financial statements (continued)

3. 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 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 Life business 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.

3.1. Foreign currency

a) *Foreign currency transactions*

Transactions denominated in foreign currencies are translated into the functional currency of the operation using the spot exchange rates at the date of the transaction.

Foreign currency monetary assets and liabilities at balance date are translated into the functional currency using the spot rates of exchange current on that date. The resulting differences on monetary items are recognised as exchange gains/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.

3.2. Revenue and expense recognition

a) *Interest income and expense*

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

b) *Dividends and distribution income*

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

c) *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.

d) *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 a cash received basis. Premiums with a regular due date are recognised on an accruals basis.

e) *Fee revenue*

Fee revenue is recognised as services are provided.

f) *Claims expense*

Insurance claims are recognised 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.

Notes to the financial statements (continued)

3.2. Revenue and expense recognition (continued)

g) *Outwards reinsurance expense*

Premium ceded to reinsurers is recognised as outwards reinsurance premium 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 premium is recognised as a deferred reinsurance asset at reporting date.

h) *Life insurance reinsurance recoveries revenue*

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

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 Australian Prudential and Regulatory Authority (**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, funds under management, claims payments and ability to pay are used to apportion the expenses to individual life insurance and life investment products.

3.3. 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. For life insurance business, income tax expense is determined after segregating the operations into classes of business which are taxed at different rates and on different bases according to the rules relating to each class.

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

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

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

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

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

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.

Notes to the financial statements (continued)

3.3. Income tax (continued)

Tax consolidation

As at 30 June 2014, the Company is a wholly-owned entity in a tax consolidated group, with Suncorp Group Limited as the head entity. As a consequence, 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, per subsidiary, 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 subsidiary.

The head entity, in conjunction with members of the tax-consolidated group, has entered into a tax sharing agreement and a tax funding agreement. The tax funding agreement requires wholly-owned subsidiaries to make contributions to the head entity for current tax liabilities arising from external transactions. The contributions are calculated as if the subsidiary was a separate 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.

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

Taxation of financial arrangements (TOFA)

Compliance with the TOFA legislation is mandatory for the Company for the current year. 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.

3.4. 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.

3.5. 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 measured at face value or the gross value of the outstanding balance which is considered a reasonable approximation of fair value. Bank overdrafts are shown within financial liabilities unless there is a right of offset.

3.6. 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 which the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Transaction costs are recognised in the profit or loss as incurred.

The assets are measured at fair value on each reporting date based on the quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used. Movements in the fair value are taken immediately to the profit or loss.

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

Notes to the financial statements (continued)

3.6. Non-derivative financial assets (continued)

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.

3.7. 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. Derivatives include foreign exchange rate related contracts, interest rate related contracts and equity contracts.

All derivatives are initially recognised at fair value on trade date and transaction costs are recognised in profit or loss as incurred. Fair values are determined from quoted market prices where available. Where quoted market prices are not available, discounted cash flow models, broker and dealer price quotations or option pricing models are used as appropriate.

Derivatives are used by the Company to manage interest rate, foreign exchange and equity price risk. They are also used to a limited degree within the insurance investment portfolios where it is more efficient to use derivatives rather than physical securities in managing investment portfolios. The use of derivatives is consistent with the objectives of the overall investment strategies of the investment portfolios, and is one of the means by which these strategies are implemented.

Embedded derivatives

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

3.8. Financial assets backing life insurance and life investment liabilities

The Company has determined that all financial assets within its statutory funds are assets backing policy liabilities. These financial assets, which include investment securities, are designated as fair value through profit or loss as they are measured on a basis that is consistent with the measurement of the liabilities.

3.9. Financial assets not backing life insurance and life investment liabilities

Financial assets held within the shareholder fund do not back life insurance liabilities or life investment liabilities and include investment securities and receivables. Investment securities 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. Receivables are measured at amortised cost less accumulated impairment losses.

3.10. Deferred acquisition costs

Deferred acquisition costs for life insurance contracts include 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. The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative.

All other acquisition costs are expensed as incurred.

3.11. 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) Loan and receivables

An impairment loss is recognised in respect of loans and other receivables, 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.

Notes to the financial statements (continued)

3.11. Impairment (continued)

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.

3.12. Non-derivative financial liabilities

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

These liabilities are classified as either held for trading or those that are designated upon initial recognition. Liabilities are initially recognised on trade date at fair value with any directly attributable transaction costs recognised in profit or loss as incurred. Fair value is determined using the offer price where available. Movements in the fair value are recognised in the profit or loss. The Company designates the deposits and borrowings of the statutory funds as being at fair value through profit or loss when they are managed on a fair value basis.

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.

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

c) *Derecognition of financial liabilities*

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

3.13. 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 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. The risk-free rate allows for illiquidity observed in the nature of liabilities.

Where the accumulation method has been used, 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.

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.

Notes to the financial statements (continued)

3.14. Policy liabilities (continued)

b) *Life investment contracts (continued)*

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 policies, 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.

3.15. Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are determined using the same methods as for life insurance contract liabilities. In addition, 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.

3.16. Share capital

Ordinary shares are classified as equity.

a) *Dividends*

Provision is made for the amount of any dividend declared, determined, or publicly recommended by the directors on or before the end of the financial year, but not distributed at reporting date. Where a dividend is declared post reporting date but prior to the date of the financial statements, disclosure of the declaration is made in the financial statements.

b) *Repurchase of share capital*

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

3.17. Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the statement of financial position 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.

3.18. Accounting standards and interpretations issued but not yet effective

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

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

Other new standards and amendments to standards effective for annual reporting periods after 1 July 2014 that have not yet been early adopted, are not expected to have a significant impact to the Company.

Notes to the financial statements (continued)

4. Life policy liabilities

4.1. Life 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 Act*.

For insurance contracts, 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. For investment contracts, the policy liability is the fair value of underlying investments, and the deferred value of income and costs.

Life insurance contract 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.

The policy liability and capital calculations are performed by actuarial personnel, using policy data, and are signed off by the Appointed Actuary, Mr Rob DeSoisa (Fellow of the Institute of Actuaries of Australia).

The profit carriers for the major policy 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	Supportable investment credits
Lump sum risk and accidental cash back	Expected premium payments
Disability income	Expected benefit/claims payments
Other	Expected benefit/claim payments

4.2. Actuarial assumptions, judgements and estimates used in calculating policy 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 outlook of the future.

The key long term actuarial assumptions were updated during the financial year. The key principles used to arrive at the assumptions are as follows:

- an adoption of a more forward looking approach in assumption settings, with greater weight to current experience and expected future trends;
- the new approach explicitly reflects the time the Appointed Actuary believes it will take for the industry to work through the industry structural challenges and expectation of shorter term shocks as the Company and industry dislocation and remediation activities take effect; and
- removal of the various cross subsidies between products that have arisen over a period of time.

As a result, the long term key claims and lapse assumptions have been strengthened to reflect the current experience, and short term key claims and lapse assumptions have been further strengthened via future trend overlays till financial year 2020.

Notes to the financial statements (continued)

4. Life policy liabilities (continued)

4.2. Actuarial assumptions, judgements and estimates used in calculating policy liabilities (continued)

The following table sets out key factors affecting the determination of the policy liabilities and the critical assumptions and judgments made, as well as significant changes since 2013.

Assumption	Basis of assumption	Significant changes since 2013
Investment earnings – participating business	Assumed earning rates are determined having regard to the asset mix of the investment portfolio backing the benefits, the assumed earning rates for each sector, market conditions at the valuation date and tax on investment earnings appropriate to the class of business and asset sector. See rates in the following table.	None.
Investment earnings – non-participating business	Assumed earnings are the risk-free rate determined from the Government bond yield curve. See rates in the following table.	The long term earnings rates after 15 years is assumed to be a constant of the 15 years forward rate in line with industry practice.
Maintenance expenses	Per policy expense rates are based upon expected costs to service existing contracts adjusted for an allocation of overhead expenses, in the period following the reporting date. Expense rates vary by product line and class of business.	The approach for allocating overheads between products has changed, reflecting the latest allocation.
Maintenance expense inflation	The inflation rate assumed takes into account the difference between the long-term government bonds and indexed government bonds for Australia. The inflation rate is 2.0 % (2013: 2.0%).	None.
Benefit indexation	Where future benefits increase in line with inflation, the assumed inflation rate is used.	None.
Voluntary discontinuance	Rates are based upon recent internal investigations. Rates may vary by product, class of business, policy value, age and duration in force. Allowance is also made for cash withdrawals. See rates in the following table.	Significant increases for risk business having regard to recent experience, recent trend and future outlook (as mentioned above).
Surrender values	Surrender values are determined by applying the surrender bases current at the reporting date.	None.
Rates of taxation	The rates of taxation assumed are based on current income tax legislation applicable to the type of product.	None.
Mortality – individual risk products	Rates are based upon recent internal investigations. Rates may vary by product, class of business, gender, age and duration in force. Rates are expressed as a multiple of standard mortality tables developed by the local actuarial bodies.	None.

Notes to the financial statements (continued)

4. Life policy liabilities (continued)

4.2. Actuarial assumptions, judgements and estimates used in calculating policy liabilities (continued)

Assumption	Basis of assumption	Significant changes since 2013
Mortality – annuitants	Rates are based upon internal investigations, and vary by age and gender. Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments for assumed future age-related improvements. Tables IM/IF80 were developed by the Institute of Actuaries and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982.	None.
Morbidity - lump sum	Rates are based on recent internal investigations, and vary by age, gender, and risk rating factors. For Total and Permanent Disablement (TPD) 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.	For trauma, significant increases having regard to recent experience, recent trend and future outlook (as mentioned above).
Disability – income	Rates are based on internal investigations, and vary by age, gender and risk rating factors. They have been determined using the IAD89-93 table with adjustments to reflect experience. IAD89-93 was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993.	Significant increases to incidence having regard to recent experience, recent trend and future outlook (as mentioned above). Moderate decreases to termination rates having regard to recent experience.
Group lump sum	Claim rates are set as a proportion of premiums net of commission and stamp duty and GST (where applicable).	Significant increases having regard to recent experience, recent trend and future outlook (as mentioned above).
Group disability income	Claim rates are set as a proportion of premiums net of commission and stamp duty and GST (where applicable). Claim termination rates are determined using IAD89-93 with adjustments to reflect the Company's experience.	Significant increases having regard to recent experience, recent trend and future outlook (as mentioned above).
Future supportable bonuses and interest credits to participating policies	Future bonus rates and interest credits assumed are those supported by the value of assets supporting the participating policies and the assumed future experience, including allowance for the shareholder's right to participate in distributions. Distributions are split between policyholders and shareholders with the valuation allowing for the shareholder to share in distributions at the maximum allowable rate of 20%.	None.

Notes to the financial statements (continued)

4. Life policy liabilities (continued)

4.2. Actuarial assumptions, judgements and estimates used in calculating policy liabilities (continued)

Assumption	2014 %	2013 %
Investment earnings pre-tax for participating business	4.5 – 5.2	4.4 - 5.9
Investment earnings pre-tax for non-participating business	2.5 – 4.0	2.5 - 4.7
Voluntary discontinuance	4 – 40	3 - 40
Mortality – individual risk products adjustment	59 – 121	59 – 121
Mortality – annuitants	60	60
Future improvements in mortality – annuitants	97.3	97.3

4.3. Sensitivity analysis

The Company conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables that affect profits. The valuations included in the reported results and the Company's best estimate of future performance is calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Company and as such represents a risk.

Variable	Impact of movement in underlying variable
Maintenance expense	An increase in the level of inflationary growth of expenses over assumed levels would decrease profit and shareholder equity.
Mortality, TPD and Trauma rates	For lump sum risk business other than lifetime annuities, greater mortality, TPD or trauma rates would lead to higher levels of claims occurring, increasing associated claim cost and therefore reduce profit and shareholder equity. For lifetime annuities greater mortality rates would lead to a shorter duration of regular payments, and therefore increase profit and shareholder equity.
Morbidity rates (disability income)	The cost of health-related claims depends on both the incidence of policyholders becoming disabled and the duration which they remain disabled. Higher than expected incidence and longer durations would increase claim costs, reducing profit and shareholder equity.
Discontinuance	An increase in discontinuance rates at earlier durations has a negative effect, reducing profit and shareholder equity, as it affects the ability to recover acquisition expenses and commissions.

For life insurance contracts, which are valued under APRA Prudential Standard LPS 340, amounts recognised in the current period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins, except in cases where the product is in loss recognition or goes into loss recognition.

The following table illustrates the sensitivities of the policy liabilities and profit and loss in the current period from changes in key assumptions as at 30 June 2014. The change in liability and profit (loss) are shown net and gross of reinsurance. There is no impact on equity reserves.

Variable	Change ⁽¹⁾	Change in insurance policy liabilities		Profit/(Loss) after tax	
		(net) \$m	(gross) \$m	(net) \$m	(gross) \$m
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.

Notes to the financial statements (continued)

4. Life policy liabilities (continued)

4.3. Sensitivity analysis (continued)

The following table below illustrates the effects of changes in actuarial assumptions from 30 June 2013 to 30 June 2014. Part of the effect of the change in variables below may have been absorbed into profit margins.

Assumption category ^{(1) (2)}	Future profit margins (shareholder) increase/(decrease) \$m	Policy liabilities increase/(decrease) \$m
Discount and earning rate (risk business) ⁽³⁾	2.2	(3.3)
Discount and earning rate (participating business)	(9.0)	-
Lapse and surrender rates	(129.7)	95.2
Mortality and morbidity lump sum	(32.6)	42.8
Morbidity income	(0.4)	94.2
Maintenance expense	14.2	(43.6)
Total	(155.3)	185.3

Note

- (1) Part of the effect of the change in assumptions above may have been absorbed into profit margins implicit within policy liabilities and is therefore not apparent from the table above.
- (2) This table does not show the impact of the new reinsurance treaty, which was effective at 1 July 2013. This change was treated as a restatement to the opening position, not an assumption change. The impact of this was to increase best estimate liabilities by \$144.0 million and reduce profit margins by the same amount, leaving the policy liability unchanged.
- (3) Numbers shown are gross of tax, except for the effect on future profit margins for risk business.

5. Risk management and financial instruments

5.1. Risk management objectives and structure

The Company is an entity in the Suncorp Group Limited group of entities (**Suncorp Group**). The Company follows the Suncorp Group risk management objective and structure as set out below.

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

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

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.1. Risk management objectives and structure (continued)

The Three Lines of Defence model of accountability involves:

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

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 the Risk Management Framework and overall risk management capability.

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

The Company is an APRA-regulated entity, which prepares Risk Management Strategies (**RMS**) approved by the Risk Committee and submitted to APRA annually. The RMS describe the strategy adopted by the Board and management for managing risk within the Company, including risk appetite, policies, procedures, management responsibilities and controls.

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.1. Risk management objectives and structure (continued)

The key risks addressed by the ERMF are defined below:

Key risks	Definition
Credit risk	The risk that a counterparty will not meet its obligations in accordance with agreed terms.
Liquidity risk	The risk that the Suncorp Group will be unable to service its cash flow obligations today or in the future.
Market risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices and market volatilities.
Asset and liability risk	The risk to earnings and capital form 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/or reinsurance management.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss 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 risk	The risk of loss arising from uncertainty about the future operating environment, including reputation, industry, economic and regulatory environment, branding, crisis management, and partners and suppliers.

5.2. Strategic Risk Management

Strategic risks are the risks related to the Company's business strategy and tactical initiatives typically articulated in business plans. Strategic risks are an inherent part of the day-to-day operations of the Company. Consideration of strategic risks is integral to the development of strategy and the decision-making process for all business initiatives wherever they occur in the Company. The Company also has a number of ongoing processes for monitoring the strategy and associated business plans. The main processes are:

- an annual strategic planning process in May to set the Company's strategic direction. This involves review and endorsement by the Board of:
 - 3 year business plans;
 - capital management plans; and
 - risk appetite statements; and
- established strategy teams, at the Company level, perform ongoing monitoring and review of business initiatives that address our strategic priorities.

5.3. Operational risk management

The Company has adopted the Suncorp Group Operational Risk Management Framework (**ORMF**) and an approved Group Board policy relating to the management of operational risk. The Operational Risk Management policy stipulates that the Suncorp Group maintains a structured and documented framework to manage operational risk that is integrated within day-to-day business activities.

The ORMF outlines the key components, with inclusion of policy, process and procedures, supported by the following core principles:

- operational risk exposure is part of doing business and is an important component of the management of the business;
- senior management are responsible and accountable for ensuring that operational risk management is embedded within their areas of responsibility;

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.3. Operational risk management (continued)

- all employees take responsibility and accept ownership for managing the operational risks inherent in their day-to-day work;
- operational risk exposures are reported in an accurate and timely manner, and with remedial actions monitored and implemented within acceptable timeframes; and
- the objective of the ORMF is to ensure operational risk profiles anticipate and, to the extent possible, mitigate operational risks within the risk appetite identified in each area of the business.

5.4. Compliance risk management

The Company has adopted the Suncorp Group Compliance Framework which provides a blueprint for the development and implementation of Compliance Programs and Compliance Plans across the Suncorp Group. The Framework sets out the roles, responsibilities, and functions relating to compliance at all levels across the organisation – in accordance with the Compliance Policy.

The Suncorp Group Compliance Framework is designed to support the following key outcomes:

- a consistent approach to compliance across the Group that is straightforward, effective and transparent;
- performance monitoring that keeps the Risk Committee, the Company and management properly informed of the Suncorp Group's overall compliance status; and
- supports efficiency in respect of Regulatory Certification.

Under the Framework, Compliance Programs are used to monitor and evaluate compliance with policies, procedures, legal and regulatory requirements, delegations, and standards approved by the Board and/or management. The Board Compliance Policy requires the Suncorp Group maintains and oversees a due diligence process to ensure necessary stakeholders are aware of material compliance matters affecting the operations of the Suncorp Group. The Company's management and leadership teams are required to complete a periodic due diligence sign off attesting to adherence to the Company's policies, procedures, legal and regulatory requirements, delegations, and standards.

5.5. Insurance risk management

a) *Policies for mitigating insurance risk*

The risk management activities include prudent underwriting, pricing, acceptance and management of risk, together with claims management and reserving.

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

- the setting and adherence to underwriting guidelines that determine policies and procedures for acceptance of risk;
- the setting of formal claims acceptance limits and the regular review and updating of claims experience data;
- the reduction in the concentration of insurance risk through diversification;
- the Company enters into reinsurance and ceding arrangements to preserve capital and manage earnings volatility from large individual claims;
- the maintenance of appropriate actuarial reserves including reserves to cover claims incurred but not yet reported;
- the identification and consistent monitoring against budget projections derived from the actuarial projections models of external variables which impact claims cash flow such as mortality and morbidity experience, claims frequency and persistency; and
- managing of risk exposures using various analyses and valuation techniques, including stochastic modelling, to calculate the capital required under adverse risk scenarios.

In addition, the Board receives a Financial Condition Report from the Appointed Actuary who also provides advice in relation to premium and reinsurance arrangements in accordance with APRA Prudential Standards.

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.5. Insurance risk management (continued)

a) Policies for mitigating insurance risk (continued)

Concentration of insurance risk is mitigated through diversification over classes of insurance business, industry segments, the use of reinsurer coverage and ensuring there is an appropriate mixture of individual and group insurance business split between mortality, morbidity and annuity benefit payments.

Exposure to risk of large claims for individual lives is managed through the use of surplus reinsurance arrangements whereby the Company's maximum exposure to any individual life is capped.

Concentrations of risk by product type are managed through monitoring of the Company's in-force life insurance business and the mix of new business written each year.

A product pricing and re-rating process ensures that any cross subsidies between insurance rates for groups of policyholders of different sex and age are minimised such that profitability is not materially impacted by changes to the age and sex profile of the in-force business whilst complying with all regulatory obligations.

b) Terms and conditions of insurance business

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 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 depend.

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 <i>Life Act</i> . 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 <i>Life Act</i> . 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.

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.5. Insurance risk management (continued)

b) Terms and conditions of insurance business (continued)

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting the timing and uncertainty of future cash flows
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.

5.6. 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	Financial instruments are only dealt with on recognised exchanges and via over the counter contracts. The counterparties to over the counter contracts are limited to companies with primarily investment grade credit ratings from a recognised credit rating agency and are normally banks operating in Australia. Credit management (credit rating and credit limit controls) policies are in place to limit exposure to any counterparty as a proportion of the investment portfolio.
Reinsurance recoveries	Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with strong credit ratings.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures, 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 16.

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.6. Credit risk (continued)

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

	Credit Rating					Investment Linked Business Not Rated ⁽¹⁾	Total
	AAA \$m	AA \$m	A \$m	BBB \$m	Other Not Rated \$m		
2014							
Cash and cash equivalents	-	136.5	176.7	-	-	71.5	384.7
Interest bearing financial assets at fair value through profit or loss	1,128.9	1,044.5	337.6	25.1	-	479.3	3,015.4
Loans, advances and other receivables	-	-	-	-	211.7	-	211.7
Gross policy liabilities ceded under reinsurance	-	502.6	-	-	-	-	502.6
Derivative financial instruments	-	5.8	-	-	-	-	5.8
	<u>1,128.9</u>	<u>1,689.4</u>	<u>514.3</u>	<u>25.1</u>	<u>211.7</u>	<u>550.8</u>	<u>4,120.2</u>
2013							
Cash and cash equivalents	-	97.2	123.3	17.6	-	91.7	329.8
Interest bearing financial assets at fair value through profit or loss	1,142.1	812.2	391.7	29.7	20.8	472.7	2,869.2
Loans, advances and other receivables	-	-	-	-	187.3	-	187.3
Gross policy liabilities ceded under reinsurance	-	436.7	-	-	-	-	436.7
Derivative financial instruments	-	0.3	-	-	-	-	0.3
	<u>1,142.1</u>	<u>1,346.4</u>	<u>515.0</u>	<u>47.3</u>	<u>208.1</u>	<u>564.4</u>	<u>3,823.3</u>

Note

- (1) 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.

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.6. Credit risk (continued)

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing 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.

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 and the table below does not include any financial assets backing investment-linked business.

	Past due but not impaired					Impaired \$m	Total \$m
	Neither past due nor impaired \$m	0-3 mths \$m	3-6 mths \$m	6-12 mths \$m	>12 mths \$m		
2014							
Premiums outstanding	-	3.1	-	-	-	-	3.1
Reinsurance recoveries receivable	63.8	22.2	1.9	2.4	3.6	-	93.9
Gross policy liabilities ceded under reinsurance	502.6	-	-	-	-	-	502.6
Other	96.3	-	-	-	-	-	96.3
	<u>662.7</u>	<u>25.3</u>	<u>1.9</u>	<u>2.4</u>	<u>3.6</u>	<u>-</u>	<u>695.9</u>
2013							
Premiums outstanding	-	21.7	-	-	-	-	21.7
Reinsurance recoveries receivable	44.2	26.7	2.0	0.7	2.5	-	76.1
Gross policy liabilities ceded under reinsurance	436.7	-	-	-	-	-	436.7
Other	70.4	-	-	-	-	-	70.4
	<u>551.3</u>	<u>48.4</u>	<u>2.0</u>	<u>0.7</u>	<u>2.5</u>	<u>-</u>	<u>604.9</u>

The Company does not expect any counterparties to fail to meet their obligations given their credit ratings and therefore does not require collateral or other security to support credit risk exposures.

5.7. Liquidity risk

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

- investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations;
- 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 assessments.

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.7. Liquidity risk (continued)

The following table summarises the maturity profile of the Company's financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for life insurance and life investment contract policy liabilities based on the discounted estimated timing of net cash outflows.

	Carrying amount \$m	1 year or less \$m	1 to 5 years \$m	Over 5 years \$m	No term \$m	Investment Linked ⁽¹⁾ \$m	Total \$m
2014							
Amounts due to reinsurers	11.4	11.4	-	-	-	-	11.4
Trade creditors and accrued expenses	111.0	111.0	-	-	-	-	111.0
Investment settlements	5.5	5.5	-	-	-	-	5.5
Derivatives liabilities - net settled	6.9	4.9	2.4	3.2	-	-	10.5
Deposits and short term borrowings	29.7	29.7	-	-	-	-	29.7
Policy claims in process of settlement	164.5	164.5	-	-	-	-	164.5
Premiums in advance	5.6	5.6	-	-	-	-	5.6
Insurance contract policy liabilities ⁽²⁾	1,949.9	128.2	566.8	1,254.9	-	-	1,949.9
Investment contract policy liabilities	3,258.2	4.5	11.5	8.9	-	3,233.3	3,258.2
Unvested policy owner benefits	305.3	-	-	-	305.3	-	305.3
Subordinated notes	100.0	5.6	22.2	123.0	-	-	150.8
	5,948.0	470.9	602.9	1,390.0	305.3	3,233.3	6,002.4
2013							
Amounts due to reinsurers	15.3	15.3	-	-	-	-	15.3
Trade creditors and accrued expenses	42.2	42.2	-	-	-	-	42.2
Investment settlements	3.8	3.8	-	-	-	-	3.8
Derivatives liabilities - net settled	11.8	7.8	1.2	2.8	-	-	11.8
Deposits and short term borrowings	30.9	30.9	-	-	-	-	30.9
Policy claims in process of settlement	126.0	126.0	-	-	-	-	126.0
Premiums in advance	9.6	9.6	-	-	-	-	9.6
Insurance contract policy liabilities ⁽²⁾	1,489.9	144.1	644.4	701.4	-	-	1,489.9
Investment contract policy liabilities	3,190.8	2.1	6.6	10.9	-	3,171.2	3,190.8
Unvested policy owner benefits	363.3	-	-	-	363.3	-	363.3
Subordinated notes	-	-	-	-	-	-	-
	5,283.6	381.8	652.2	715.1	363.3	3,171.2	5,283.6

Notes

- (1) 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 risk in those assets. Therefore the tables in this section show the policyholder liability separately without any maturity profile analysis.
- (2) This table shows the estimated timing of future net cash outflows resulting from insurance contract liabilities. This includes estimated future surrenders, death/disability claims and maturity benefits, offset by expected future premiums or contributions and reinsurance recoveries. All values are discounted to the current date using the assumed future investment earning rate for each product.

5.8. Market risk

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

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

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.8. Market risk (continued)

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.

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 in global equities with foreign currency exposure managed by entering into forward foreign exchange and futures contracts. The Company also invests in several Suncorp Group related trusts who enter into forward foreign exchange and futures contracts to aim to provide capital appreciation.

The Company's exposure to foreign exchange risk at balance date is shown in the following sensitivity analysis. This analysis assumes that all other variables, in particular interest rates, remain constant. The movements in foreign exchange rate used in the sensitivity analysis for 2014 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. There is no impact on equity reserves.

	2014			2013		
	Exposure at 30 June	Change in FX rate	Profit (loss) after tax ⁽¹⁾	Exposure at 30 June	Change in FX rate	Profit (loss) after tax ⁽¹⁾
	\$m	%	\$m	\$m	%	\$m
Euro	24.5	+10	1.6	37.3	+15	4.5
		-10	(1.8)		-15	(3.5)
GBP	31.1	+10	2.1	20.8	+15	2.4
		-10	(2.3)		-15	(2.0)
JPY	22.9	+10	1.5	19.4	+15	2.5
		-10	(1.7)		-15	(1.7)
USD	145.0	+10	9.7	152.6	+10	14.0
		-10	(10.7)		-10	(8.0)
Other	58.0	+10	3.8	18.40	+15	2.2
		-10	(4.3)		-15	(1.8)

Note

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

b) Interest rate risk

Interest rate risk exposure arises mainly from investment in interest-bearing securities. Interest rate risk arises in respect of financial assets held in the shareholder's funds 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. 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.

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.8. Market risk (continued)

b) Interest rate risk (continued)

The sensitivity of profit or loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves.

The movements in interest rate used in the sensitivity analysis for 2014 has been revised to reflect updated assessment of the reasonable possible changes in interest rate over the next twelve months given renewed observations and experience in the investment markets during the financial year. There is no impact on equity reserves.

	2014	Change in	Profit (loss)	Exposure	2013	Change in	Profit (loss)
	Exposure	interest	after tax ⁽¹⁾	at 30 June	Exposure	interest	after tax ⁽¹⁾
	at 30 June	rate	\$m	at 30 June	at 30 June	rate	\$m
	\$m	bp	\$m	\$m	\$m	bp	\$m
Interest bearing investment assets	2,536.1	+125	(54.0)	2,485.9	+125	(58.7)	
		-25	11.6		-50	25.8	
Subordinated notes	100.0	+125	(0.9)	-	+125	-	
		-25	0.2		-50	-	
Loans and advances	18.4	+150	0.2	19.1	+150	0.2	
		-100	(0.1)		-100	(0.1)	

Notes

- (1) After tax impact on profit/(loss) using corporate tax rate of 30%. Actual after tax impact for life insurance business may differ.
- (2) Excludes interest-bearing investment securities held for investment-linked business as the Company has no direct interest rate risk exposure from these investment securities.

c) Equity risk

The Company has exposure to equity risk from equity investments in its investment portfolios. Equity risk is managed by incorporating a diverse holding of Australian and overseas equities (whether direct or through unlisted 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 listed equity price movements as at the balance date with all other variables remaining constant. The price risk in relation to unlisted securities is immaterial in terms of the possible impact on profit or loss and has not been included in the sensitivity analysis. There is no impact on equity reserves.

	2014	Change in	Profit (loss)	Exposure	2013	Change in	Profit (loss)
	Exposure	equity	after tax ⁽¹⁾	at 30 June	Exposure	equity	after tax ⁽¹⁾
	at 30 June	price	\$m	at 30 June	at 30 June	price	\$m
	\$m	%	\$m	\$m	\$m	%	\$m
Australian equities	401.0	+15	42.1	643.0	+15	67.5	
		-15	(42.1)		-15	(67.5)	
International equities	265.1	+15	27.8	255.8	+15	26.9	
		-15	(27.8)		-15	(26.9)	

Notes

- (1) After tax impact on profit/(loss) using corporate tax rate of 30%. Actual after tax impact for life insurance business may differ.
- (2) Excludes equity investment securities held for investment-linked business as the Company has no direct equity price risk exposure from these investment securities.

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.8. 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. The table below presents a sensitivity analysis on how credit spread movements could affect profit or loss for its exposure in investment holdings as at the balance date. There is no impact on equity reserves. The movements in credit spread used in the sensitivity analysis for 2014 have been revised to reflect an updated assessment of the reasonable possible changes in credit spread over the next 12 months given renewed observations and experience in the investment markets during the financial year.

	2014			2013		
	Exposure at 30 June \$m	Change in credit spread bp	Profit (loss) after tax \$m	Exposure at 30 June \$m	Change in credit spread bp	Profit (loss) after tax \$m
Credit exposure (excluding semi-government)	1,292.2	+75 -25	(23.5) 8.1	1,245.5	+75 -50	(17.3) 11.9
Credit exposure (excluding government)	356.7	+50 -20	(12.9) 5.0	250.2	+50 -30	(9.8) 6.3

5.9. 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.

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
30 June 2014				
Financial assets designated at fair value through profit or loss	1,970.8	4,467.1	-	6,437.9
Derivative financial assets	1.4	4.4	-	5.8
	1,972.2	4,471.5	-	6,443.7
Life investment contract liabilities	-	(3,258.2)	-	(3,258.2)
Derivative financial liabilities	(2.4)	(4.5)	-	(6.9)
	(2.4)	(3,262.7)	-	(3,265.1)
30 June 2013				
Financial assets designated at fair value through profit or loss	2,307.9	4,199.5	0.2	6,507.6
Derivative financial assets	-	0.3	-	0.3
	2,307.9	4,199.8	0.2	6,507.9
Life investment contract liabilities	-	(3,190.8)	-	(3,190.8)
Derivative financial liabilities	-	(11.1)	(0.7)	(11.8)
	-	(3,201.9)	(0.7)	(3,202.6)

There have been no transfers in either direction (level 1 to level 2 and vice versa) during the year ended 30 June 2014 (2013: nil).

Notes to the financial statements (continued)

5. Risk management and financial instruments (continued)

5.9. Fair value hierarchy (continued)

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

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

	Investment Securities 2014 \$m	Investment Securities 2013 \$m
Financial assets		
Balance at the beginning of the financial year	0.2	3.6
Total gains or losses included in profit or loss for:		
Life insurance investment (loss) revenue	-	0.6
Transfer out of level 3	(0.2)	-
Sales	-	(4.0)
Balance at the end of the financial year	<u>-</u>	<u>0.2</u>
Financial liabilities		
Balance at the beginning of the financial year	(0.7)	-
Transfer out of level 3	0.7	-
Purchases	-	(0.7)
Balance at the end of the financial year	<u>-</u>	<u>(0.7)</u>

6. Premium revenue

	2014 \$m	2013 \$m
Direct premiums	1,033.1	1,053.8
Direct consideration for deferred annuities:		
Policy conversions	0.2	0.5
Total premium received or receivable	1,033.3	1,054.3
Premiums recognised as a deposit or change in policy liabilities (note 20(b),(c))	(285.8)	(373.6)
Total premium revenue	<u>747.5</u>	<u>680.7</u>

Notes to the financial statements (continued)

7. Investment revenue

	2014 \$m	2013 \$m
Interest, dividend and other revenue distributed from:		
Equity securities	360.9	156.0
Debt securities	111.9	130.5
Property	16.9	13.6
Other	-	-
	<u>489.7</u>	<u>300.1</u>
Realised and unrealised gains/(losses) generated from:		
Equity securities	190.0	512.5
Debt securities	50.1	(16.3)
Property	(4.6)	19.6
Other	10.6	(13.1)
	<u>246.1</u>	<u>502.7</u>
Total investment revenue	<u>735.8</u>	<u>802.8</u>

8. Revenue from operating activities

	2014 \$m	2013 \$m
Revenue		
Premium revenue (note 6)	747.5	680.7
Investment revenue (note 7)	735.8	802.8
Other revenue	10.3	8.2
Reinsurance claim recoveries	201.6	174.7
Total revenue	<u>1,695.2</u>	<u>1,666.4</u>

9. Claims expense

	2014 \$m	2013 \$m
Claims		
Death and disability claims	(461.0)	(434.4)
Surrenders and terminations	(681.7)	(900.4)
Maturities	(5.2)	(3.3)
Annuities	(31.0)	(37.6)
Policy conversions	(0.2)	(0.5)
	<u>(1,179.1)</u>	<u>(1,376.2)</u>
Claims recognised as withdrawal or a change in gross policy liabilities (note 20(b),(c))	684.0	936.9
Total claims expense	<u>(495.1)</u>	<u>(439.3)</u>
Interim and terminal bonuses paid, included in total claims paid or payable	(4.0)	(4.1)

Notes to the financial statements (continued)

10. Operating expenses

	2014 \$m	2013 \$m
Policy acquisition expenses:		
Commission	(61.9)	(70.1)
Other	(129.0)	(117.0)
Policy maintenance expenses:		
Commission	(67.4)	(62.0)
Other	(101.9)	(76.9)
Investment management expenses	(12.3)	(10.5)
Total administration expenses - life insurance activities	(372.5)	(336.5)
Amortisation of non-life deferred acquisition costs	-	(2.3)
Total operating expenses	(372.5)	(338.8)

11. Operating results

	2014 \$m	2013 \$m
(Loss)/profit from operating activities before income tax expense has been arrived at after charging the following items:		
Employee expenses	(28.5)	(27.1)
Occupancy expenses	(5.5)	(2.4)
Other expenses		
Communications	(5.1)	(5.4)
Financial	(5.5)	(7.7)
Marketing	(0.3)	(0.2)
Client service charges	(1.2)	(1.8)
Other	(3.2)	(4.1)
Total other expenses	(15.3)	(19.2)

The Company does not have employees. All employees are employed by a related entity and these associated costs along with other related expenses are recharged to the Company through intra group expenses. Refer note 35.

Notes to the financial statements (continued)

12. Taxation

(a) Income tax expense

	2014 \$m	2013 \$m
Recognised in the profit or loss		
Current tax expense		
Current year	51.2	19.8
Adjustments for prior years	3.5	(0.1)
	<u>54.7</u>	<u>19.7</u>
Deferred tax expense		
Origination and reversal of temporary differences	(45.4)	43.2
Total income tax expense	<u>9.3</u>	<u>62.9</u>
Numerical reconciliation between income tax expense and (loss)/profit before tax		
(Loss)/profit before tax for the financial year	(85.9)	103.5
Income tax using the domestic corporation rate of 30% (2013: 30%)	(25.8)	31.1
Increase/(decrease) in income tax expense due to:		
Statutory funds	35.6	33.8
	9.8	64.9
Over/(under) provision in prior years	(0.5)	(2.0)
Income tax expense on (loss)/ profit before tax	<u>9.3</u>	<u>62.9</u>

Income tax expense includes an amount of \$8.8 million (2013: \$63.1 million) attributable to the statutory funds. The income tax expense 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:

	2014 %	2013 %
Class of business		
Complying superannuation business ⁽¹⁾	15	15
Ordinary class of business	30	30
Shareholder funds	30	30
Annuity and pension business ⁽²⁾	Exempt	Exempt

Notes

(1) Includes Virtual Pooled Superannuation Trust (VPST)

(2) Segregated Exempt Assets (SEA)

Basis of income tax apportionment

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

(b) Current tax liabilities

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

Notes to the financial statements (continued)

12. Taxation (continued)

(c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m
Investment securities	-	-	(52.9)	(23.6)	(52.9)	(23.6)
Provisions	5.0	0.4	-	-	5.0	0.4
Loss recognition on life products	71.7	1.3	-	-	71.7	1.3
Other items	0.1	0.4	-	-	0.1	0.4
Tax assets/(liabilities)	76.8	2.1	(52.9)	(23.6)	23.9	(21.5)
Set off of tax	(52.9)	(2.1)	52.9	2.1	-	-
Net tax assets/(liabilities)	23.9	-	-	(21.5)	23.9	(21.5)

13. Cash and cash equivalents

	2014	2013
	\$m	\$m
Cash at bank	167.8	118.1
Cash held indirectly through unit trusts	166.4	190.5
Other money market placements	50.5	21.2
	384.7	329.8

14. Receivables

	2014	2013
	\$m	\$m
Owing from related parties	2.9	30.3
Reinsurance recoveries receivable	93.9	76.1
Investment receivable	72.4	20.9
Other debtors	21.0	19.2
	190.2	146.5
Expected to be realised within 12 months	186.6	144.0
Expected to be realised in more than 12 months	3.6	2.5
	190.2	146.5

Notes to the financial statements (continued)

15. Investment securities

	2014 \$m	2013 \$m
Equity security investments		
Unit trusts	3,245.2	3,399.0
Total equities securities investments	<u>3,245.2</u>	<u>3,399.0</u>
Debt security investments		
Interest bearing securities		
Fixed interest	608.5	803.8
Loans and advances:		
Loans on policies	3.7	4.1
Non-forfeiture loans	14.7	15.0
Unit trusts	2,406.9	2,065.4
Total debt security investments	<u>3,033.8</u>	<u>2,888.3</u>
Property investments		
Unit trusts	158.9	220.3
Total property investments	<u>158.9</u>	<u>220.3</u>
Total Investment securities	<u>6,437.9</u>	<u>6,507.6</u>
Expected to be realised within 12 months ⁽¹⁾	6,437.9	6,507.6
Expected to be realised in more than 12 months	-	-
	<u>6,437.9</u>	<u>6,507.6</u>

Notes

- (1) Reflects assets that are liquid and can be realised within a 3 day period if required to service cash flow obligations and are therefore disclosed as expected to be realised within twelve months.

Notes to the financial statements (continued)

16. Derivative financial instruments

	Notional value \$m	2014 Fair value	
		Asset \$m	Liability \$m
30 June 2014			
<i>Exchange rate-related contracts</i>			
Forward foreign exchange contracts	296.4	1.3	(1.2)
<i>Interest rate-related contracts</i>			
Interest rate swaps	253.1	3.5	(3.4)
Interest rate futures	601.2	0.9	(2.3)
	854.3	4.4	(5.7)
<i>Equity contracts</i>			
Equity futures	56.9	0.1	-
Total derivative exposures - current	1,207.6	5.8	(6.9)
30 June 2013			
<i>Exchange rate-related contracts</i>			
Forward foreign exchange contracts	252.5	0.1	(7.8)
<i>Interest rate-related contracts</i>			
Interest rate swaps	292.9	0.2	(4.0)
Interest rate futures	106.8	-	-
	399.7	0.2	(4.0)
<i>Equity contracts</i>			
Equity futures	13.6	-	-
Total derivative exposures - current	665.8	0.3	(11.8)

17. Payables

	2014 \$m	2013 \$m
Policy claims in process of settlement	164.5	126.0
Reinsurance premium payable	11.4	15.3
Sundry creditors and accrued expenses	61.8	32.1
Owing to related parties	32.3	0.4
Other payables	22.4	13.5
	292.4	187.3
Expected to be settled within 12 months	292.4	187.3
Expected to be settled in more than 12 months	-	-
	292.4	187.3

Notes to the financial statements (continued)

18. Deposits and short-term borrowings

	2014 \$m	2013 \$m
Unsecured		
Subsidiaries of the ultimate parent entity	27.7	19.8
Subsidiaries of the parent entity	2.0	11.1
	29.7	30.9
Expected to be settled within 12 months	29.7	30.9
Expected to be settled in more than 12 months	-	-
	29.7	30.9

19. Subordinated notes

	Due date	First call	2014 \$m	2013 \$m
<i>Financial liabilities at amortised cost</i>				
Floating rate notes	22 August 2023	22 August 2018	100.0	-
Total subordinated notes (unsecured)			100.0	-
Expected to be settled within 12 months			-	-
Expected to be settled in more than 12 months			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, and 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.

Notes to the financial statements (continued)

20. Policy liabilities

	2014 \$m	2013 \$m
(a) Policy liabilities		
Gross policy liabilities	5,710.7	5,117.4
Gross policy liabilities ceded under reinsurance	(502.6)	(436.7)
Net policy liabilities	5,208.1	4,680.7
Expected to be realised within 12 months	804.3	688.6
Expected to be realised in more than 12 months	4,403.8	4,428.8
	5,208.1	5,117.4
(b) Life insurance contract policy liabilities		
Life insurance contract policy liabilities at the beginning of the financial year	1,926.6	1,829.5
Change in life insurance contract policy liabilities		
Life insurance premiums recognised as a change in gross policy liabilities (note 6)	89.0	106.4
Life insurance claims recognised as a change in gross policy liabilities (note 9)	(178.8)	(177.7)
Change in life insurance contract policy liabilities reflected in the statement of comprehensive income	615.7	168.4
Total change in life insurance contract policy liabilities	525.9	97.1
Life insurance contract policy liabilities at the end of the financial year	2,452.5	1,926.6
(c) Life investment contract policy liabilities		
Life investment contract policy liabilities at the beginning of the financial year	3,190.8	3,218.7
Change in life investment contract policy liabilities		
Life investment contract contributions recognised in policy liabilities (note 6)	196.8	267.2
Life investment contract withdrawals recognised in policy liabilities (note 9)	(505.2)	(759.2)
Increase in life investment contract policy liabilities reflected in the statement of comprehensive income	375.8	464.1
Total change in life investment contract policy liabilities	67.4	(27.9)
Life investment contract policy liabilities at the end of the financial year	3,258.2	3,190.8
(d) Unvested policyholder benefits liability		
Unvested policyholder benefits at the beginning of the financial year	363.3	360.7
Change in unvested policyholder benefits	(58.0)	2.6
Unvested policyholder benefits at the end of the financial year	305.3	363.3
(e) Life insurance contract policy liabilities ceded under reinsurance		
Life insurance contract policy liabilities ceded at the beginning of the financial year	436.7	431.3
Change in life insurance contract policy liabilities ceded	65.9	5.4
Life insurance contract policy liabilities ceded at the end of the financial year	502.6	436.7
Expected to be realised within 12 months	56.6	58.5
Expected to be realised in more than 12 months	446.0	378.2
	502.6	436.7

Notes to the financial statements (continued)

20. Policy liabilities (continued)

(f) Components of net policy liabilities - insurance contracts	Current Basis ⁽⁴⁾	Previous Basis ⁽⁵⁾	2013 ⁽⁶⁾ \$m
	2014 \$m	2014 \$m	
Best estimate liability			
Value of future policy benefits ⁽¹⁾	4,107.4	3,996.8	4,467.7
Value of future expenses	1,522.2	1,663.3	1,785.1
Value of unrecouped acquisition expenses	(868.8)	(1,011.5)	(1,191.4)
Balance of future premiums	(3,773.7)	(4,037.8)	(4,717.6)
Total best estimate liability	987.1	610.8	343.8
Value of future profits			
Policyholder bonuses ⁽²⁾	570.5	606.5	524.0
Shareholder profit margins	250.6	405.8	541.0
Total value of future profits	821.1	1,012.3	1,065.0
Total value of declared bonuses ⁽³⁾	141.7	141.7	81.4
Total net policy liabilities	1,949.9	1,764.8	1,490.2
Life insurance reinsurance ceded	502.6	312.5	436.7
Gross insurance contract liabilities	2,452.5	2,077.3	1,926.9

Notes

- (1) Future policy benefits include bonuses credited to policyholders in prior periods but exclude current period bonuses (as set out in the statement of comprehensive income) and future bonuses (as set out in (2)). Where business is valued by other than projection techniques, future policy benefits includes the account balance.
- (2) Future bonuses exclude current period bonuses.
- (3) Current year declared bonuses valued in accordance with the 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 current basis.

a) Capital guarantees

Included in life insurance contract liabilities are amounts in respect of contracts with discretionary participation features. The amount of policy liabilities that relates to the guaranteed element of these contracts is \$1,438.5 million (2013: \$1,295.9 million).

b) Amounts expected to be recovered or settled no more than 12 months after the reporting date

For the majority of the investment contract and life insurance contract liabilities, there is no fixed settlement date. Settlement amounts are based on the Company's assumptions as to likely withdrawal patterns in the various product groups.

Notes to the financial statements (continued)

21. Share capital

	Ordinary shares	
	2014	2013
	\$m	\$m
Balance at the beginning of the financial year	663.7	556.7
Capital injection	-	115.0
Capital redemption	-	(8.0)
Balance at the end of the financial year	663.7	663.7

The total Prescribed Capital Amount (**PCA**) of the Company is the sum of the PCA of each of its funds and cannot be less than \$10 million.

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.

21.1. Movement in the number of ordinary shares on issue were as follows:

	No. of shares	
	2014	2013
	m	m
Balance at the beginning of the financial year	129.3	118.6
Capital injection	-	11.5
Capital redemption	-	(0.8)
Balance at the end of the financial year	129.3	129.3

Ordinary shares on issue at 30 June 2014 total 129,283,248 (2013: 129,283,248), each fully paid.

21.2. 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 independently capitalised to meet internal and external requirements.

The Company is subject to regulatory capital requirements which prescribe the minimum amount and quality of capital to be held at each of its funds, known as the Prudential Capital Requirement (**PCR**) which is the sum of the PCA and any APRA supervisory adjustment. The PCA is determined based on an assessment of the level of insurance risk, asset risk, asset concentration risk, operational risk, an aggregation benefit and a combined stress scenario adjustment. The Company also holds at each of its funds a target surplus in excess of the prescribed minimum. Where capital falls below the operating range of this target surplus, the Company undertakes one or more management actions in accordance with its ICAAP Summary Statement to improve the capital position. In addition to the tests required by regulatory standards, sensitivity and scenario stress testing is performed to ascertain the ability of the funds to withstand various adverse scenarios.

The Company has at all times during the current and prior financial year complied with these capital requirements.

Other than the abovementioned requirement imposed, being a life insurance business operating in Australia, the Company is not subject to any other externally imposed capital requirements. As an APRA regulated entity, ASIC capital requirements are not applicable.

Notes to the financial statements (continued)

22. Dividends

	2014 \$m	2013 \$m
Ordinary shares		
2012 Final dividend - \$1.52 per fully paid share	-	(180.0)
2013 Final dividend - \$1.22 per fully paid share	(158.0)	-
2014 Interim dividend - \$0.77 per fully paid share	(100.0)	-
2014 Interim dividend - \$1.60 per fully paid share	(207.0)	-
2014 Interim dividend - \$0.33 per fully paid share	(43.0)	-
	(508.0)	(180.0)

23. Reconciliation of cash flows from operating activities

	2014 \$m	2013 \$m
(Loss)/profit for the financial year	(95.2)	40.6
Non-cash items		
Changes in fair value relating to investing activities (note 7):	(246.1)	(502.7)
Change in assets and liabilities		
(Increase) in insurance and other recoveries receivable	(17.8)	(10.0)
Decrease/(increase) in premiums outstanding	18.6	(8.4)
Decrease in investment income receivable	2.1	30.3
Decrease in deferred acquisition costs	-	2.3
(Increase)/decrease in other debtors	(61.3)	0.6
Net movement in tax balances	(13.3)	(31.4)
(Decrease)/increase in premiums in advance	(4.5)	1.4
Increase/(decrease) in insurance and other premium expense payable	34.6	(16.6)
Increase in net policy liabilities	527.4	63.8
(Decrease)/increase in policyholders retained profits	(58.0)	2.6
(Decrease) in deferred service fee income	-	(0.2)
Increase/(decrease) in other creditors	38.3	(40.3)
Net cash inflow/(outflow) from operating activities	124.8	(468.0)

24. Auditors' remuneration

	2014 \$	2013 \$
Audit and review services		
Auditors of the Company		
<i>KPMG Australia</i>		
Audit of financial reports	321,250	327,630
Other regulatory services	366,780	116,000
	688,030	443,630

Fees for services rendered by the Company's auditor in relation to the statutory audit are paid by a related entity of the ultimate parent entity and recharged to the Company via intra group expenses.

Notes to the financial statements (continued)

25. 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 that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, is likely to have a material effect on its operations or financial position. The directors are of the opinion that 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.

Details of contingent liabilities for which no provisions are included in these financial reports are as follows:

- **Derivative instruments**

In the ordinary course of business, the Company enters into various types of investment contracts, including derivative positions 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.

- **Tax consolidation**

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.

26. Summary of shareholder's interests

	Statutory Funds		Shareholder Fund		Total	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Operating (loss)/profit after income tax	(96.4)	41.0	1.2	(0.4)	(95.2)	40.6
Shareholder's retained profits at the beginning of the financial year	1,080.6	1,219.6	(43.5)	(43.1)	1,037.1	1,176.5
Transfers of profits between funds	(498.1)	(180.0)	498.1	180.0	-	-
Dividends paid (note 22)	-	-	(508.0)	(180.0)	(508.0)	(180.0)
Shareholder's retained profits at the end of the financial year	486.1	1,080.6	(52.2)	(43.5)	433.9	1,037.1
Share capital (note 21)	-	-	663.7	663.7	663.7	663.7
Capital transfers to statutory funds	609.6	609.6	(609.6)	(609.6)	-	-
Total shareholder's equity (note 32.4, 32.5)	1,095.7	1,690.2	1.9	10.6	1,097.6	1,700.8
<i>Components of shareholder's interests in statutory funds:</i>						
Shareholder's retained profits - participating business	136.1	131.3				
Shareholder's retained profits - non-participating business	350.0	949.3				
Shareholder's capital	609.6	609.6				
	1,095.7	1,690.2				

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.

Notes to the financial statements (continued)

27. Reconciliation to *Life Act* operating profits and retained profits of statutory funds

27.1. 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 profit, are allocated to the shareholder.

27.2. 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.

27.3. Details of operating profits

	Policyholders' interests		Shareholder's interests		Total Statutory Funds	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Operating (loss)/ profit after income tax (Note 26)	-	-	(96.4)	41.0	(96.4)	41.0
Bonuses provided for or paid in the current period:						
Interim & terminal bonus on claims paid	4.0	4.1	-	-	4.0	4.1
Declared bonus on in force policies	141.4	81.4	-	-	141.4	81.4
Increase/(decrease) in policyholder retained profits	(58.0)	2.6	-	-	(58.0)	2.6
Life Act operating profit after income tax	87.4	88.1	(96.4)	41.0	(9.0)	129.1
<i>Sources of the operating profit:</i>						
From non-investment linked business:						
Participating business	87.4	88.1	21.9	21.9	109.3	110.0
Non-participating business	-	-	(119.5)	13.2	(119.5)	13.2
From investment linked business:						
Non-participating business	-	-	1.2	5.9	1.2	5.9
	87.4	88.1	(96.4)	41.0	(9.0)	129.1

Notes to the financial statements (continued)

27. Reconciliation to Life Act operating profits and retained profits of statutory funds (continued)

27.4. Details of retained profits

	Policyholders' interests		Shareholder's interests		Total Statutory Funds	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Retained profits at the beginning of the financial year	-	-	1,080.6	1,219.6	1,080.6	1,219.6
Liability for unvested policyholder benefits (note 20(d))	363.3	360.7	-	-	363.3	360.7
Life Act retained profits at the beginning of the financial year	363.3	360.7	1,080.6	1,219.6	1,443.9	1,580.3
Life Act operating profit after income tax (note 27.3)	87.4	88.1	(96.4)	41.0	(9.0)	129.1
Transfer (to)/from shareholder's fund from non-participating business (note 26)	-	-	(498.1)	(180.0)	(498.1)	(180.0)
Provision for bonuses to participating policyholders	(145.4)	(85.5)	-	-	(145.4)	(85.5)
Life Act retained profits at the end of the financial year	305.3	363.3	486.1	1,080.6	791.4	1,443.9
Policyholder retained profits at the end of the financial year (note 20(d))	(305.3)	(363.3)	-	-	(305.3)	(363.3)
Retained profits at the end of the financial year	-	-	486.1	1,080.6	486.1	1,080.6
<i>Components of Life Act retained profits at the end of the financial year:</i>						
Policyholders' interests (note 20(d))	305.3	363.3	-	-	305.3	363.3
Shareholder's interests in participating business	-	-	101.7	116.3	101.7	116.3
Shareholder's interests in non-participating business	-	-	384.4	964.3	384.4	964.3
	305.3	363.3	486.1	1,080.6	791.4	1,443.9

Notes to the financial statements (continued)

28. Capital requirements of the Company

The Company is required to hold prudential reserves, over and above their 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 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:

	Statutory Fund No 1 2014 \$m	Statutory Fund No 2 2014 \$m	Total Statutory Funds 2014 \$m	Shareholder Fund 2014 \$m	Total 2014 \$m
As at 30 June 2014					
Capital base					
Net assets as per <i>Life Act</i>	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
Prescribed 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
As at 30 June 2013					
Capital base					
Net assets as per <i>Life Act</i>	1,660.1	30.1	1,690.2	10.6	1,700.8
Total regulatory adjustments to net assets	(1,147.3)	-	(1,147.3)	-	(1,147.3)
Tier 2 Capital	-	-	-	-	-
Total capital base	(A) 512.8	30.1	542.9	10.6	553.5
Prescribed capital					
Insurance risk capital charge	42.7	-	42.7	-	42.7
Asset risk charge	80.8	-	80.8	-	80.8
Operational risk charge	26.7	8.2	34.9	-	34.9
Less aggregation benefit	(24.9)	-	(24.9)	-	(24.9)
Combined stress scenario adjustment	61.8	-	61.8	-	61.8
Total PCA (B)	187.1	8.2	195.3	-	195.3
PCA coverage ratios (times)	(A/B) 2.7	3.7	2.8	381.4	2.8

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

Notes to the financial statements (continued)

29. Statement of sources of operating profit

	Life Insurance Contracts	Investment Linked Contracts	Other Life Investment Contracts	Total	Total
	2014	2014	2014	2014	2013
	\$m	\$m	\$m	\$m	\$m
Life Act shareholder's profit in the statutory funds					
The shareholder's operating profit after income tax in the statutory funds is represented by:					
Investment earnings on shareholder's retained profits and capital	65.4	0.5	-	65.9	27.6
Emergence of shareholder's planned profits	46.9	-	-	46.9	75.5
Experience (loss)/profit	(67.7)	-	-	(67.7)	(72.3)
Reversal of capitalised loss/(losses capitalised)	(142.2)	-	-	(142.2)	4.2
Management services profit	-	0.7	-	0.7	6.1
Life Act shareholder's operating (loss)/profit after income tax	(97.6)	1.2	-	(96.4)	41.1
Cumulative losses carried forward at the end of the financial year	161.5	-	-	161.5	19.6
Life Act policyholders' operating profit in the statutory funds					
The <i>Life Act</i> policyholders' operating profit after income tax in the statutory funds is represented by:					
Investment earnings on retained profits	23.7	-	-	23.7	32.4
Emergence of policyholder planned profits	61.7	-	-	61.7	43.4
Experience profit/(loss)	2.0	-	-	2.0	4.6
Loss reversal/(recognition)	-	-	-	-	7.7
Life Act policyholders' operating profit after income tax	87.4	-	-	87.4	88.1

30. Asset restrictions, managed assets and trustee activities

30.1. 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 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, application is made or approval required from APRA. In addition to the *Life Act* requirements, profit distributions will be subject to the Target Surplus Policy and Appointed Actuary advice.

30.2. 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.

Notes to the financial statements (continued)

31. Segment information

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

32. Statutory funds segment information

32.1. 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	
<i>No. 1 Statutory Fund</i>		
Fully or partially capital guaranteed, ordinary and superannuation business	Individual:	Whole of Life, Endowment, Term Life, Investment Account, Trauma, Disability
	Group:	Group Life, Managed Fund
	Annuities:	Immediate, Deferred
<i>No. 2 Statutory Fund</i>		
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.

Notes to the financial statements (continued)

32. Statutory funds segment information (continued)

32.2. Abbreviated statement of comprehensive income at fund and category level for the year ended 30 June 2014

	Non- Investment Linked Statutory Fund No 1 \$m	Investment Linked Statutory Fund No 2 \$m	Total Statutory Funds \$m	Shareholder Fund \$m	Total \$m
2014					
Premium revenue	747.5	-	747.5	-	747.5
Outwards reinsurance expense	(40.9)	-	(40.9)	-	(40.9)
	706.6	-	706.6	-	706.6
Investment revenue	309.0	426.7	735.7	0.1	735.8
Other revenue	(0.1)	8.0	7.9	2.4	10.3
Total revenue	1,015.5	434.7	1,450.2	2.5	1,452.7
Claims expense	(495.1)	-	(495.1)	-	(495.1)
Reinsurance claim recoveries	201.6	-	201.6	-	201.6
	(293.5)	-	(293.5)	-	(293.5)
Operating expenses	(326.5)	(45.2)	(371.7)	(0.8)	(372.5)
Finance costs	(5.0)	-	(5.0)	-	(5.0)
Change in net insurance contract liabilities	(549.8)	-	(549.8)	-	(549.8)
Change in investment contract liabilities	(6.0)	(369.8)	(375.8)	-	(375.8)
Increase in policyholder retained profits	58.0	-	58.0	-	58.0
Total claims and expenses	(1,122.8)	(415.0)	(1,537.8)	(0.8)	(1,538.6)
Operating profit/(loss) before income tax	(107.3)	19.7	(87.6)	1.7	(85.9)
Income tax (expense)/benefit	11.4	(20.2)	(8.8)	(0.5)	(9.3)
Profit/(loss) from ordinary activities after income tax	(95.9)	(0.5)	(96.4)	1.2	(95.2)

Notes to the financial statements (continued)

32. Statutory funds segment information (continued)

32.3. Abbreviated statement of comprehensive income at fund and category level for the year ended 30 June 2013

	Non- Investment Linked Statutory Fund No 1 \$m	Investment Linked Statutory Fund No 2 \$m	Total Statutory Funds \$m	Shareholder Fund \$m	Total \$m
2013					
Premium revenue	680.7	-	680.7	-	680.7
Outwards reinsurance expense	(155.1)	-	(155.1)	-	(155.1)
	525.6	-	525.6	-	525.6
Investment revenue	291.6	510.9	802.5	0.3	802.8
Other revenue	-	5.9	5.9	2.3	8.2
Total revenue	817.2	516.8	1,334.0	2.6	1,336.6
Claims expense	(439.3)	-	(439.3)	-	(439.3)
Reinsurance claim recoveries	174.7	-	174.7	-	174.7
	(264.6)	-	(264.6)	-	(264.6)
Operating expenses	(305.4)	(30.2)	(335.6)	(3.2)	(338.8)
Finance costs	-	-	-	-	-
Change in net insurance contract liabilities	(163.0)	-	(163.0)	-	(163.0)
Change in investment contract liabilities	(2.5)	(461.6)	(464.1)	-	(464.1)
Decrease in policyholder retained profits	(2.6)	-	(2.6)	-	(2.6)
Total claims and expenses	(738.1)	(491.8)	(1,229.9)	(3.2)	(1,233.1)
Operating profit/(loss) before income tax	79.1	25.0	104.1	(0.6)	103.5
Income tax (expense)/benefit	(44.0)	(19.1)	(63.1)	0.2	(62.9)
Profit/(loss) from ordinary activities after income tax	35.1	5.9	41.0	(0.4)	40.6

Notes to the financial statements (continued)

32. Statutory funds segment information (continued)

32.4. Abbreviated statement of financial position at fund and category level for the year ended 30 June 2014

	Non- Investment Linked Statutory Fund No 1 \$m	Investment Linked Statutory Fund No 2 \$m	Total Statutory Funds \$m	Shareholder Fund \$m	Total \$m
2014					
Cash and cash equivalents	163.3	223.1	386.4	(1.7)	384.7
Investment securities and derivative assets	3,251.3	3,191.0	6,442.3	1.4	6,443.7
Gross policy liabilities ceded under reinsurance	502.6	-	502.6	-	502.6
Other assets	187.4	28.2	215.6	1.6	217.2
Total assets	4,104.6	3,442.3	7,546.9	1.3	7,548.2
Gross policy liabilities	2,477.4	3,233.3	5,710.7	-	5,710.7
Policyholder retained profits	305.3	-	305.3	-	305.3
Other liabilities	145.7	189.5	335.2	(0.6)	334.6
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	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

Notes to the financial statements (continued)

32. Statutory funds segment information (continued)

32.5. Abbreviated statement of financial position at fund and category level for the year ended 30 June 2013

2013	Non- Investment Linked Statutory Fund No 1 \$m	Investment Linked Statutory Fund No 2 \$m	Total Statutory Funds \$m	Shareholder Fund \$m	Total \$m
Cash and cash equivalents	136.9	191.9	328.8	1.0	329.8
Investment securities and derivative assets	3,412.8	3,088.2	6,501.0	6.9	6,507.9
Gross policy liabilities ceded under reinsurance	436.7	-	436.7	-	436.7
Other assets	143.6	23.4	167.0	1.2	168.2
Total assets	4,130.0	3,303.5	7,433.5	9.1	7,442.6
Gross policy liabilities	1,946.9	3,170.5	5,117.4	-	5,117.4
Policyholder retained profits	363.3	-	363.3	-	363.3
Other liabilities	159.7	102.9	262.6	(1.5)	261.1
Subordinated notes	-	-	-	-	-
Total liabilities	2,469.9	3,273.4	5,743.3	(1.5)	5,741.8
Net assets	1,660.1	30.1	1,690.2	10.6	1,700.8
Share capital	-	-	-	663.7	663.7
Capital transfers	585.5	24.1	609.6	(609.6)	-
Retained profits	1,074.6	6.0	1,080.6	(43.5)	1,037.1
Total equity	1,660.1	30.1	1,690.2	10.6	1,700.8

33. Subsidiaries

	2014 %	2013 %
Suncorp Group Australian Cash Enhanced Trust	99	100
Suncorp Group Australian Equities Active Trust	79	82
Suncorp Group Australian Equities Enhanced Index	77	81
Suncorp Group Australian Equity Value Trust	100	100
Suncorp Group Australian Fixed Interest Trust	96	99
Suncorp Group Australian Listed Property Trust	64	98
Suncorp Group Global Equities Trust	75	72
Suncorp Group Global Fixed Interest Trust	94	100

Notes to the financial statements (continued)

34. Key management personnel

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

	2014	2013
	\$	\$
Short-term employee benefits	20,388,506	19,536,537
Long-term employee benefits	5,248,111	5,623,862
Post employment benefits	416,331	365,497
Share-based payments	4,718,858	4,766,911
Termination benefits	766,637	-
	31,538,443	30,292,807

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

34.1. Other key management personnel transactions

Transactions with directors and executives 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.

34.2. Key management personnel related parties

A number of key management personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with these entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

Notes to the financial statements (continued)

35. Related parties

35.1. Identity of related parties

The Company has related party relationships with its ultimate parent entity and its subsidiaries (see below), its key management personnel (refer to disclosures for key management personnel above) and other entities within the wholly-owned group (which consists of Suncorp Group Limited and its wholly-owned subsidiaries). The intermediate parent entity is Suncorp Life Holdings Limited and the ultimate parent entity in the wholly-owned group is Suncorp Group Limited.

35.2. Related party transactions

Transactions between the Company and related parties in the wholly-owned 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 except that some advances may be interest free.

The aggregate amounts included in the determination of profit/(loss) before tax that resulted from transactions with related parties are:

	2014 \$	2013 \$
Management fee income:		
Subsidiaries of parent entity	(1,500,647)	(830,615)
	<u>(1,500,647)</u>	<u>(830,615)</u>
Administration expenses/(revenue):		
Ultimate parent entity	238,513	386,703
Subsidiaries of ultimate parent entity	175,454,281	149,795,407
Subsidiaries of parent entity	(7,302,715)	18,466,054
	<u>168,390,079</u>	<u>168,648,164</u>
Dividends paid or due and payable :		
Parent entity	508,000,000	180,000,000
	<u>508,000,000</u>	<u>180,000,000</u>

The aggregate amounts receivable from and payable to, in each class of related parties at balance date are as follows:

	2014 \$	2013 \$
Loans, advances and other receivables:		
Related entity	2,912,409	30,325,207
	<u>2,912,409</u>	<u>30,325,207</u>
Payables, deposits and short-term borrowings:		
Ultimate parent entity	32,336,924	365,028
Related entity	29,598,736	30,883,402
	<u>61,935,660</u>	<u>31,248,430</u>
Cash and cash equivalents		
Related entity	<u>178,878,561</u>	<u>95,099,412</u>

The above amounts are interest free and receivable/repayable within the next 12 months.

Notes to the financial statements (continued)

36. 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 an 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 (eg interest rate swaps) in the statement of financial position where there is a legally enforceable right to set off and are intended to be settled on a net basis.
- Certain derivatives are subject to International Swaps and Derivatives Association (**ISDA**) Master Agreement and other similar master netting arrangements. These arrangements contractually binds the Company and the counterparty to apply close out netting across all outstanding transactions 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 standard industry terms.

	Gross amounts \$m	Offsetting applied \$m	As presented in the SOFP ⁽¹⁾ \$m	Amounts not offset in the SOFP ⁽¹⁾		
				Financial instruments \$m	Cash collateral \$m	Net exposure \$m
2014						
Financial assets						
Derivatives	574.5	(568.7)	5.8	(3.3)	(1.0)	1.5
Total	574.5	(568.7)	5.8	(3.3)	(1.0)	1.5
Financial liabilities						
Derivatives	575.6	(568.7)	6.9	(3.3)	(2.4)	1.2
Total	575.6	(568.7)	6.9	(3.3)	(2.4)	1.2
2013						
Financial assets						
Derivatives	566.5	(566.2)	0.3	(0.1)	(0.1)	0.1
Total	566.5	(566.2)	0.3	(0.1)	(0.1)	0.1
Financial liabilities						
Derivatives	578.0	(566.2)	11.8	(0.3)	(0.5)	11.0
Total	578.0	(566.2)	11.8	(0.3)	(0.5)	11.0

Note:

- (1) SOFP denotes statement of financial position. The balances may not equate to the corresponding line item presented on the face of the statement of financial position or in the supporting notes. The difference relates to financial assets and financial liabilities that are not subject to master netting arrangements and are therefore not in scope of offsetting disclosures.

37. 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.


Director's 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 56 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 2014 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

13 August 2014



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 2014, 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 37 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 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.1.


KPMG



P M Reid

Partner

Brisbane

13 August 2014