SUNCORP GROUP LIMITED AND SUBSIDIARIES

ABN 66 145 290 124

Consolidated interim financial report
For the half-year ended 31 December 2017

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DIRECTORS' REPORT

The directors present their report together with the consolidated interim financial report of the Suncorp Group (the **Suncorp Group**, **Suncorp** or the **Group**), being Suncorp Group Limited (the **Company**) and its subsidiaries for the half-year ended 31 December 2017 and the auditor's review report thereon. Terms that are defined appear in bold the first time they are used.

1. Directors

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

Non-executive

Dr Zygmunt E Switkowski AO (Chairman)	Director since 2010
Audette E Exel AO	Director since 2012
Sally A Herman	Director since 2015
Simon C Machell	Director since 2017
Christine F McLoughlin	Director since 2015
Dr Douglas F McTaggart	Director since 2012
Lindsay J Tanner	Appointed 1 January 2018
William J Bartlett	Retired 21 September 2017
Ewoud J Kulk	Retired 21 September 2017

Executive

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

2. Dividends

A fully franked 2017 final dividend of $517 million (40 cents per share) was paid on 20 September 2017. A fully franked 2018 interim dividend of $428 million (33 cents per share) has been determined by the directors.

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

3. Review of operations

3.1. Overview of the Suncorp Group

The Suncorp Group has delivered a net profit after tax attributable to owners of the Company of $452 million for the half-year ended 31 December 2017 (December 2016: $537 million).

The result was driven by solid growth in insurance premium income from the Australian Consumer portfolio and Banking net interest income, investment in the Group's Business Improvement Program (**BIP**) ($50 million) and the Marketplace acceleration program ($36 million), and the timing of natural hazards.

An increased focus on Suncorp's four strategic pillars, in particular, elevating the needs of customers has delivered strong growth in Consumer and Commercial insurance premiums in Australia and New Zealand, as well as Bank lending growth. Regulatory reform has impacted compulsory third party (**CTP**) premium income and home insurance fire service levies, which have reduced insurance premium income growth rates.

Suncorp has progressed its two strategic programs, the Marketplace acceleration program and the BIP, over the period with a view to improving customer experience, lowering the Group's cost base and delivering a more resilient business model embedding a culture of continuous improvement across the organisation.

The Group has also had to manage the short-term costs of increased regulation which are expected to deliver longer term competition benefits.

Timing of natural hazards, including the Victorian hailstorm, resulted in the Group being above its natural hazard allowance and reporting a temporary increase in risk margin, although the risk margin is expected to unwind over the second half of the financial year.

3.2. Financial position and capital structure

Net assets of the Suncorp Group decreased to $13,739 million at 31 December 2017 from $13,790 million at 30 June 2017. The decrease in net assets of $51 million primarily arises from the payment of the 2017 final dividend, partially offset by the total comprehensive income for the half-year.

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

Capital continued to be managed on a legal entity basis. At 31 December 2017, the General Insurance Common Equity Tier 1 (**CET1**) capital position was 1.22 times the Prescribed Capital Amount (PCA) (June 2017: 1.32 times), the Bank's CET1 ratio was 9.01% (June 2017: 9.23%) and the Life CET1 capital position was 2.37 times the PCA (June 2017: 2.00 times). After accounting for the interim dividend, Suncorp Group remains well capitalised with $381 million (June 2017: $377 million) in CET1 capital held above its operating targets.

During the half-year the Group issued $375 million of Additional Tier 1 capital notes through the Company as part of its capital management strategy. These notes, along with the $375 million of the Company Capital Notes issued in May 2017, facilitated the repayment of the $560 million CPS2 Additional Tier 1 capital securities. The additional $190 million of capital raised over and above the amount required to repay CPS2 has been deployed to the following businesses:

- $100 million to Bank to support continued growth in the Bank balance sheet
- $35 million to the Australian Life business, to improve the efficiency of the Life capital structure.

A further $55 million is currently held by the Company and is expected to be deployed to the New Zealand General Insurance business in early 2018, in the form of RBNZ compliant perpetual capital securities, to improve the efficiency of the New Zealand capital structure.

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

3.3. Review of principal businesses

Insurance achieved a net profit after tax of $264 million for the half-year ended 31 December 2017 (December 2016: $369 million). This comprises a net profit after tax of $234 million (December 2016: $358 million) from the Australian general insurance business and a net profit after tax of $30 million (December 2016: $11 million) from the Australian life insurance business.

The insurance trading result for Australian general insurance was $266 million (December 2016: $491 million), representing an insurance trading ratio of 7.3% (December 2016: 13.8%). The result has been impacted by higher natural hazard costs and investment in BIP, which will deliver future benefits. This was partially offset by targeted price increases across the portfolio and continued improvement to working claims.

Gross written premium (**GWP**) decreased by 0.7% to $4,004 million (December 2016: $4,031 million) which reflects strong rate increases in Consumer, offset by reduced CTP premiums.

Home and Motor achieved GWP growth of 3.1% through unit growth and premium increases. Commercial insurance GWP decreased by 0.4% (increased by 1.5% excluding fire service levy impact), with Suncorp continuing to maintain a disciplined approach to underwriting, prioritising margin over growth achieving rate increases ranging from mid-single digit to the high-teens.

CTP GWP decreased by 15.7%, primarily driven by NSW scheme reform. Workers Compensation benefited from rate and wage growth in Western Australia.

Net incurred claims were $2,724 million (December 2016: $2,374 million), increased 14.7%, impacted by discount rate movements, natural hazards events in December 2017 and a shift in the mix of premiums towards long-tail classes. The loss ratio was 74.8% (December 2016: 66.8%). Reserve releases of $129 million remain well above long-term expectations of 1.5% of net earned premium. This was primarily attributable to a continued focus on long-tail claims management and a benign environment for wage and super-imposed inflation.

Net investment income has increased to $192 million (December 2016: $70 million) due to the outperformance on inflation-linked bonds, gains from narrowing credit spreads and improved returns from equities, partially offset by losses from an increase in risk-free rates.

The Australian life insurance business net profit after tax reflects higher planned profit margins due to favourable claims experience at the end of last financial year as well as reduced expenses and repricing benefits. In-force premium grew 0.9% from growth in retail and direct channels, due to stepped age and CPI increases. New business volumes were impacted by ongoing industry disruption and heightened regulatory scrutiny.

Banking & Wealth delivered a net profit after tax of $197 million for the half-year ended 31 December 2017 (December 2016: $208 million). This comprises a net profit after tax of $191 million (December 2016: $203 million) from Banking and a net profit after tax of $6 million (December 2016: $5 million) from Wealth.

Banking's result was driven by an increase in net interest income offset by increased operating expenses from the investments in the BIP activities and digital capabilities, increase regulatory costs, and a small increase in impairment losses from a low base.

Net interest income increased 7.2% to $598 million (December 2016: $558 million), primarily driven by increased lending growth, decreasing wholesale funding costs and stable cash rates. The average net interest margin (**NIM**) increased 8 basis points (**bps**) to 1.86% (December 2016: 1.78%), supported by targeted growth within risk settings and management of the funding portfolio mix and remained at the top end of the target range.

Total loans and advances increased to $57,635 million (June 2017: $55,197 million). Retail lending growth was driven by competitive price offerings and enhanced broker partnerships. Business lending growth was driven by targeted growth within selected well-known market segments to balance our total lending portfolio mix.

Impairment losses on loans and advances of $13 million (December 2016: $1 million) remains below the operating range, representing 4 bps of gross loans and advances on an annualised basis.

Banking's deposit-to-loan ratio of 65.8% is within the target operating range of 60% to 70%. Banking continues to balance the deposit portfolio utilising its diverse range of wholesale funding options, while targeting at call deposit customers who are expected to benefit from the investment in digital self-service and payment capability and investment in simplifying processes. Due to Banking's early and prudent management of the Net Stable Funding Ratio requirements and growth in at call deposits, Banking is less reliant on relatively expensive term deposits.

Wealth's result was driven by positive investment returns and the performance of annuity and participating business. This result was partially offset by the cost of heightened regulatory change activity and transitioning to the new administration platform.

The Wealth business continued to improve customer service capability through digital enhancements and providing self-service options for members and intermediaries. Improvements with transaction processing automation, offshore business processing and decommissioning a legacy administration platform has improved operational efficiency and reduced operational risk. The Wealth business is now focused on embedding the changes, stabilising the new operating model, customer retention and targeting growth through the Marketplace.

Suncorp New Zealand achieved a profit after tax of $61 million for the half-year ended 31 December 2017 (December 2016: $36 million). This comprises a net profit after tax of $46 million (December 2016: $19 million) from the New Zealand general insurance business and a net profit after tax of $15 million (December 2016: $17 million) from the New Zealand life insurance business.

The New Zealand general insurance business results was driven by premium increases, unit growth, strong claims management and expense control offsetting the impacts of increased reinsurance premiums and claims cost inflation. As a result, margins have improved with an insurance trading ratio of 12.4% (December 2016: 3.8%) for the half-year.

GWP grew by 3.5% to $703 million (December 2016: $679 million) driven by price and unit growth across the direct and corporate partner channels. Pricing changes have been implemented in response to claims inflation, increased reinsurance costs and to support an increased natural hazards allowance.

Net incurred claims were $319 million (December 2016: $354 million), down 9.9%, with favourable experience in the commercial portfolios. The loss ratio was 56.6% (December 2016: 63.6%).

Net investment income has decreased to $4 million (December 2016: $9 million), driven by mark-to-market losses of $11 million over the period on the Tower Limited shareholding, which was partly offset by gains on the fixed-income portfolio due to a decrease in bond yields.

The New Zealand life insurance business results was driven by short term volatility in experience with prior year favourable experience reversing over the half-year. In-force premium grew 5.0% driven by strong new business and policy retention.

4. Events subsequent to reporting date

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

5. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 6 and forms part of the Directors' report for the half-year ended 31 December 2017.

6. Rounding of amounts

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

Signed in accordance with a resolution of the directors.

DR ZIGGY SWITKOWSKI AO

Chairman of the Board

15 February 2018

MICHAEL CAMERON

CEO and Managing Director

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

To the Directors of Suncorp Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Suncorp Group Limited for the half-year ended 31 December 2017 there have been:

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

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

KPMG

Chris Hall

Partner

Sydney

15 February 2018

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2017

	Note	Dec 2017 $M	Dec 2016 $M
Revenue			
Insurance premium income		5,270	5,173
Reinsurance and other recoveries income		611	1,591
Interest income on			
financial assets not at fair value through profit or loss		1,259	1,247
financial assets at fair value through profit or loss		268	289
Net gains on financial assets and liabilities at fair value through profit or loss		123	-
Dividend and trust distribution income		32	55
Fees and other income		278	283
Total revenue		7,841	8,638
Expenses			
Claims expense and movement in policyowner liabilities		(3,850)	(4,489)
Outwards reinsurance premium expense		(694)	(694)
Underwriting and policy maintenance expenses		(1,207)	(1,222)
Interest expense on			
financial liabilities not at fair value through profit or loss		(671)	(707)
financial liabilities at fair value through profit or loss		(45)	(35)
Net losses on financial assets and liabilities at fair value through profit or loss		-	(65)
Impairment loss on loans and advances	6.2	(13)	(1)
Amortisation and depreciation expense		(85)	(75)
Fees, overheads and other expenses		(539)	(445)
Outside beneficial interests in managed funds		(62)	(93)
Total expenses		(7,166)	(7,826)
Profit before income tax		675	812
Income tax expense		(214)	(270)
Profit for the period		461	542
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges		(2)	(36)
Net change in fair value of available-for-sale financial assets		(3)	7
Exchange differences on translation of foreign operations		(43)	7
Income tax benefit		2	10
Total other comprehensive income		(46)	(12)
Total comprehensive income for the period		415	530
Profit for the period attributable to:			
Owners of the Company		452	537
Non-controlling interests		9	5
Profit for the period		461	542
Total comprehensive income for the period attributable to:			
Owners of the Company		406	525
Non-controlling interests		9	5
Total comprehensive income for the period		415	530
Earnings per share		Cents	Cents
Basic earnings per share		35.12	41.93
Diluted earnings per share		34.66	41.13

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

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	Dec 2017 $M	Jun 2017 $M
Assets			
Cash and cash equivalents		1,143	1,840
Receivables due from other banks		470	567
Trading securities		1,512	1,520
Derivatives		154	188
Investment securities		22,533	22,327
Loans and advances	5	57,635	55,197
Premiums outstanding		2,544	2,620
Reinsurance and other recoveries		2,746	3,353
Deferred reinsurance assets		550	837
Deferred acquisition costs		699	704
Gross policy liabilities ceded under reinsurance		536	585
Property, plant and equipment		216	200
Deferred tax assets		208	226
Goodwill and other intangible assets		5,768	5,821
Other assets		1,145	1,124
Total assets		97,859	97,109
Liabilities			
Payables due to other banks		54	50
Deposits and short-term borrowings	7	45,612	45,105
Derivatives		312	376
Amounts due to reinsurers		312	799
Payables and other liabilities		1,735	1,999
Current tax liabilities		2	106
Unearned premium liabilities		4,889	4,965
Outstanding claims liabilities		10,660	10,952
Gross policy liabilities		2,807	2,917
Deferred tax liabilities		121	121
Managed funds units on issue		1,256	911
Securitisation liabilities	8	4,111	3,088
Debt issues	8	9,722	9,216
Loan capital	8	2,527	2,714
Total liabilities		84,120	83,319
Net assets		13,739	13,790
Equity			
Share capital	9	12,820	12,766
Reserves		117	161
Retained profits		789	855
Total equity attributable to owners of the Company		13,726	13,782
Non-controlling interests		13	8
Total equity		13,739	13,790

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

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2017

		Equity attributable to owners of the Company					
	Note	Share capital $M	Reserves $M	Retained profits $M	Total $M	Non-controlling interests $M	Total equity $M
Balance as at 1 July 2017		12,766	161	855	13,782	8	13,790
Profit for the period		-	-	452	452	9	461
Total other comprehensive income for the period		-	(46)	-	(46)	-	(46)
Total comprehensive income for the period		-	(46)	452	406	9	415
Transactions with owners, recorded directly in equity							
Dividends paid	3	-	-	(516)	(516)	(4)	(520)
Shares issued	9	42	-	-	42	-	42
Share-based payments	9	8	-	-	8	-	8
Treasury share movements	9	4	-	-	4	-	4
Transfers		-	2	(2)	-	-	-
Balance as at 31 December 2017		12,820	117	789	13,726	13	13,739
Balance as at 1 July 2016		12,679	198	684	13,561	9	13,570
Profit for the period		-	-	537	537	5	542
Total other comprehensive income for the period		-	(12)	-	(12)	-	(12)
Total comprehensive income for the period		-	(12)	537	525	5	530
Transactions with owners, recorded directly in equity							
Dividends paid	3	-	-	(487)	(487)	(4)	(491)
Shares issued	9	46	-	-	46	-	46
Share-based payments	9	2	-	-	2	-	2
Treasury share movements	9	(5)	-	-	(5)	-	(5)
Balance as at 31 December 2016		12,722	186	734	13,642	10	13,652

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

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2017

	Note	Dec 2017 $M	Dec 2016 $M
Cash flows from operating activities			
Premiums received		5,819	5,954
Claims paid		(4,611)	(4,690)
Interest received		1,506	1,541
Interest paid		(713)	(763)
Reinsurance and other recoveries received		1,194	1,169
Outwards reinsurance premiums paid		(953)	(933)
Fees and other operating income received		322	298
Dividends and trust distributions received		32	55
Fees and operating expenses paid		(1,906)	(2,248)
Income tax paid		(303)	(244)
Net (increase) decrease in operating assets			
Trading securities		8	(100)
Loans and advances		(2,442)	87
Net increase in operating liabilities			
Deposits and short-term borrowings		463	1,159
Net cash (used in) from operating activities		(1,584)	1,285
Cash flows from investing activities			
Proceeds from the sale or maturity of investment securities		15,422	9,035
Payments for purchase of investment securities		(15,504)	(9,616)
Proceeds from other investing activities		1	46
Payments for other investing activities		(53)	(112)
Net cash used in investing activities		(134)	(647)
Cash flows from financing activities			
Proceeds from debt issues and securitisation liabilities	8	3,801	1,716
Repayment of debt issues and securitisation liabilities	8	(2,198)	(2,314)
Proceeds from issue of loan capital	8	60	330
Payment on call of loan capital	8	(245)	(98)
Dividends paid		(474)	(441)
Payments for other financing activities		(18)	(19)
Net cash from (used in) financing activities		926	(826)
Net decrease in cash and cash equivalents		(792)	(188)
Cash and cash equivalents at the beginning of the period		2,357	2,018
Effect of exchange rate fluctuations on cash held		(6)	1
Cash and cash equivalents at the end of the period		1,559	1,831
Cash and cash equivalents at the end of the period comprises:			
Cash and cash equivalents		1,143	1,870
Receivables due from other banks		470	473
Payables due to other banks		(54)	(512)
		1,559	1,831

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2017

1. Reporting entity

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

The consolidated interim financial statements for the half-year ended 31 December 2017 comprise the Company and its subsidiaries (the **Suncorp Group, Suncorp** or the **Group**) and were authorised for issue by the Board of Directors on 15 February 2018.

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

2. Basis of preparation

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

The consolidated interim financial report does not include all of the information required for a full consolidated annual financial report, and should be read in conjunction with the consolidated financial report of the Suncorp Group for the financial year ended 30 June 2017 and any public announcements made by the Suncorp Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Australian Securities Exchange (**ASX**) Listing Rules. The consolidated financial report of the Suncorp Group for the financial year ended 30 June 2017 is available upon request from the Company's registered office or at suncorpgroup.com.au.

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

The accounting policies applied by the Suncorp Group in this consolidated interim financial report are the same as those applied by the Suncorp Group in its consolidated financial report for the financial year ended 30 June 2017.

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

2.1 Use of estimates and judgments

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

The significant judgments made by management in applying the Suncorp Group accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial report as at and for the financial year ended 30 June 2017.

3. Dividends

	Dec 2017		Dec 2016	
	Cents per share	**$M**	**Cents per share**	**$M**
Dividend payments on ordinary shares				
2017 final dividend (December 2016: 2016 final dividend)	40	517	38	489
Dividends paid on treasury shares		(1)		(2)
Total dividends on ordinary shares paid to owners of the Company	40	516	38	487
Dividends not recognised in the consolidated interim statement of financial position[1]				
Dividends determined since balance date				
2018 interim dividend (December 2016: 2017 interim dividend)	33	428	33	426

1 The total 2018 interim dividends on ordinary shares determined but not recognised in the consolidated interim statement of financial position are estimated based on the total number of ordinary shares on issue without taking into account treasury shares as at 31 December 2017. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2018 will be based on the actual number of ordinary shares on issue net of treasury shares on the record date.

4. Segment reporting

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

4.1 Operating segments

The Suncorp Group comprises the following operating segments.

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

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

The basis of measurement of segment results are the same as those applied by the Suncorp Group in its consolidated financial report for the financial year ended 30 June 2017.

	Insurance $M	Banking & Wealth $M	Suncorp New Zealand $M	Corporate $M	Total $M
Half-year ended 31 December 2017					
External revenue	5,403	1,501	863	8	7,775
Inter-segment revenue	6	-	3	18	27
Total segment revenue	5,409	1,501	866	26	7,802
Segment profit (loss) before income tax	373	291	92	(81)	675
Segment income tax (expense) benefit	(109)	(94)	(31)	20	(214)
Segment profit (loss) after income tax	264	197	61	(61)	461
Half-year ended 31 December 2016					
External revenue	5,464	1,497	1,670	8	8,639
Inter-segment revenue	6	-	28	18	52
Total segment revenue	5,470	1,497	1,698	26	8,691
Segment profit (loss) before income tax	527	305	53	(73)	812
Segment income tax expense	(158)	(97)	(17)	2	(270)
Segment profit (loss) after income tax[1]	369	208	36	(71)	542

1 On 21 November 2016, the Group announced that it had executed the sale of its New Zealand Autosure motor insurance business. The sale resulted in a post-tax loss on disposal of $25 million which has been included in the results of the Corporate operating segment.

4.2 Reconciliation of segment profit before income tax

	Dec 2017 $M	Dec 2016 $M
Segment total profit before income tax	675	812
Elimination of intra-group investment income	2	(1)
Other consolidation eliminations	(2)	1
Consolidated total profit before income tax	675	812

5. Loans and advances

	Note	Dec 2017 $M	Jun 2017 $M
Financial assets at amortised cost			
Housing loans		46,940	44,844
Consumer loans		250	254
Business loans		10,569	10,226
Other lending		7	13
Gross loans and advances		57,766	55,337
Provision for impairment	6	(131)	(140)
Net loans and advances		57,635	55,197
Current		10,854	10,172
Non-current		46,781	45,025
Net loans and advances		57,635	55,197

6. Provision for impairment on loans and advances

6.1 Reconciliation of provision for impairment on loans and advances

	Half-year to		
	Dec 2017 $M	Jun 2017 $M	Dec 2016 $M
Collective provision			
Balance at the beginning of the period	96	102	108
Write-back against impairment losses	(2)	(6)	(6)
Balance at the end of the period	94	96	102
Specific provision			
Balance at the beginning of the period	44	46	56
New and increased individual provisioning	19	14	20
Write-back of provisions no longer required	(7)	(5)	(20)
Impaired provision written off	(17)	(9)	(7)
Unwind of discount	(2)	(2)	(3)
Balance at the end of the period	37	44	46
Total provision for impairment	131	140	148

6.2 Impairment loss on loans and advances

	Half-year to		
	Dec 2017 $M	Jun 2017 $M	Dec 2016 $M
Decrease in collective provision for impairment	(2)	(6)	(6)
Increase in specific provision for impairment	12	9	-
Bad debts written off	4	5	8
Bad debts recovered	(1)	(2)	(1)
Total impairment loss on loans and advances	13	6	1

7. Deposits and short-term borrowings

	Dec 2017 $M	Jun 2017 $M
Financial liabilities at amortised cost		
Call deposits	19,493	18,623
Term deposits	18,117	17,895
Short-term securities issued	5,739	6,118
Total financial liabilities at amortised cost	43,349	42,636
Financial liabilities designated at fair value through profit or loss		
Offshore commercial papers	2,263	2,469
Total deposits and short-term borrowings	45,612	45,105
Current	45,277	44,319
Non-current	335	786
Total deposits and short-term borrowings	45,612	45,105

Deposits and short-term borrowings obtained under repurchase agreements with the Reserve Bank of Australia and outstanding at 31 December 2017 are $300 million (30 June 2017: $306 million).

8. Issues and repayments of debt securities

	Liabilities arising from operating activities	Liabilities arising from financing activities		
	Short-term offshore debt securities[1] $M	Securitisation liabilities $M	Debt issues $M	Loan capital $M
Balance as at 1 July 2017	2,469	3,088	9,216	2,714
Cash flows				
Proceeds	2,196	1,500	2,301	60
Repayments	(2,446)	(475)	(1,723)	(245)
Transaction costs	-	(2)	-	(6)
Non-cash changes	44	-	(72)	4
Balance as at 31 December 2017	2,263	4,111	9,722	2,527
Balance as at 1 July 2016	2,681	2,535	9,841	2,340
Cash flows				
Proceeds	2,924	-	1,716	330
Repayments	(2,676)	(333)	(1,981)	(98)
Transaction costs	-	-	-	(2)
Non-cash changes	174	2	9	(17)
Balance as at 31 December 2016	3,103	2,204	9,585	2,553

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

On 24 November 2017, the Company issued $375 million of Capital Notes 2 (ASX: SUNPG) for $100 per note. They are fully paid, perpetual, subordinated and unsecured securities. Total $315 million of convertible preference shares (CPS2) (ASX: SUNPC) exchanged and reinvested in Capital Notes 2 as part of the Reinvestment Offer, the cash proceeds from the issue was $60 million.

On 18 December 2017, the Company redeemed all remaining CPS2 for $245 million.

CPS2 and Capital Notes are disclosed within the consolidated interim statement of financial position category of 'loan capital'.

9. Share capital

	Number of ordinary shares	Issued capital $M	Share-based payments $M	Treasury shares $M	Total share capital $M
Balance as at 1 July 2017	1,292,699,888	12,797	74	(105)	12,766
Shares issued	3,320,490	42	-	-	42
Share-based payments	-	-	8	-	8
Treasury share movements	-	-	-	4	4
Balance as at 31 December 2017	1,296,020,378	12,839	82	(101)	12,820
Balance as at 1 July 2016	1,286,600,980	12,717	63	(101)	12,679
Shares issued	3,596,350	46	-	-	46
Share-based payments	-	-	2	-	2
Treasury share movements	-	-	-	(5)	(5)
Balance as at 31 December 2016	1,290,197,330	12,763	65	(106)	12,722

Issue of new ordinary shares

On 20 September 2017, 3,320,485 ordinary shares were issued and allotted at the issue price of $12.89 per share under the Dividend Reinvestment Plan in respect of the 2017 final dividend. On 21 September 2016, 3,596,350 ordinary shares were issued and allotted at the issue price of $12.81 per share under the Dividend Reinvestment Plan in respect of the 2016 final dividend.

On 24 November 2017, 5 ordinary shares were issued at the issue price of $13.95 per share to fund the redemption of CPS2 by Suncorp Group Limited.

10. Fair value of financial instruments

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

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

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

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

Financial assets and liabilities measured at fair value

The following table presents the financial assets and liabilities that are measured at fair value categorised by fair value hierarchy.

		Dec 2017				Jun 2017			
	Note	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets									
Trading securities		-	1,512	-	1,512	-	1,520	-	1,520
Fair value through profit or loss[1,2]		4,398	13,548	11	17,957	4,881	12,875	11	17,767
Available-for-sale financial assets[1]		-	3,809	-	3,809	-	3,677	-	3,677
Derivatives		11	143	-	154	11	177	-	188
		4,409	19,012	11	23,432	4,892	18,249	11	23,152
Financial liabilities									
Short-term offshore commercial papers designated as financial liabilities at fair value through profit or loss[3]	7	-	2,263	-	2,263	-	2,469	-	2,469
Derivatives		7	305	-	312	7	369	-	376
		7	2,568	-	2,575	7	2,838	-	2,845

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

2 The Level 3 financial asset relates to investment in unlisted equity securities. There have been no remeasurements through profit or loss or other comprehensive income during the period.

3 Disclosed within the consolidated interim statement of financial position category of 'Deposits and short-term borrowings'.

There have been no significant transfers between Level 1 and Level 2 and no transfers into or out of Level 3 during the current or prior half-year. Transfers are deemed to have occurred at the end of the reporting period.

Financial assets and liabilities not measured at fair value

The table below discloses a comparison of carrying value and fair value of financial assets and liabilities that are not measured at fair value after initial recognition, where their carrying value is not a reasonable approximation of fair value. The significant assumptions and estimates used in determining their fair values are consistent with those used in the financial year ended 30 June 2017.

	Note	Carrying value $M	Fair value Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 31 December 2017						
Financial assets						
Held-to-maturity investments		767	-	779	-	779
Loans and advances	5	57,635	-	-	57,635	57,635
Financial liabilities						
Deposits and short-term borrowings at amortised cost	7	43,349	-	43,361	-	43,361
Securitisation liabilities	8	4,111	-	4,128	-	4,128
Debt issues	8	9,722	-	9,808	-	9,808
Loan capital	8	2,527	1,980	646	-	2,626
As at 30 June 2017						
Financial assets						
Held-to-maturity investments		883	-	897	-	897
Loans and advances	5	55,197	-	-	55,240	55,240
Financial liabilities						
Deposits and short-term borrowings at amortised cost	7	42,636	-	42,698	-	42,698
Securitisation liabilities	8	3,088	-	3,092	-	3,092
Debt issues	8	9,216	-	9,252	-	9,252
Loan capital	8	2,714	2,159	638	-	2,797

11. Related parties

Arrangements for related parties continue to be in place as disclosed in the consolidated financial report for the financial year ended 30 June 2017.

12. Share-based payments

The Short-term incentives (**STI**) are offered to the CEO and Managing Director and Senior Executives as part of their remuneration package under the Suncorp Equity-Based Deferral Plan. On 15 August 2017, 657,583 (December 2016: nil) equity-settled rights were offered under STI arrangements at total fair value of $8,576,000. Total STI deferred into equity-settled rights expensed for the half-year ended 31 December 2017 is $4,111,000.

The Long-term Incentives (**LTI**) grants are offered to the CEO and Managing Director and Senior Executives as part of their remuneration package under the Suncorp Group Equity Incentive Plan. On 1 September 2017, 954,619 (December 2016: 1,525,689) performance rights were offered under LTI arrangements at total fair value of $6,727,000. Total LTI expensed for the half-year ended 31 December 2017 is $5,667,000. The vesting period for these performance rights is between 1 and 3 years depending on the conditions of the award.

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

13. Contingent assets and liabilities

There have been no material changes in contingent assets or contingent liabilities since 30 June 2017.

14. Subsequent events

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

DIRECTORS' DECLARATION

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

1. The consolidated interim financial statements and notes set out on pages 7 to 20, are in accordance with the *Corporations Act 2001*, including:
   a. giving a true and fair view of the Suncorp Group's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
   b. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

DR ZIGGY SWITKOWSKI AO

Chairman

15 February 2018

MICHAEL CAMERON

CEO and Managing Director

Independent Auditor's Review Report

To the shareholders of Suncorp Group Limited

Conclusion

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

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

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

- Consolidated interim statement of financial position as at 31 December 2017
- Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date
- Notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information
- The Directors' declaration.

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

KPMG

Responsibilities of the Directors for the Consolidated interim financial report

The Directors of the Company are responsible for:

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

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

Our responsibility is to express a conclusion on the Consolidated interim financial report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Consolidated interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134* Interim Financial Reporting and the *Corporations Regulations 2001*. As auditor of Suncorp Group Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

Chris Hall

Partner

Sydney

15 February 2018