SUNCORP GROUP LIMITED AND SUBSIDIARIES
ABN 66 145 290 124

Consolidated interim financial report

For the half-year ended 31 December 2019

Contents | Page

Directors' Report

The directors present their report together with the consolidated interim financial report of Suncorp Group Limited (the **Company**) and its subsidiaries (the **Suncorp Group**, **Suncorp** or the **Group**) for the half-year ended 31 December 2019 and the auditor's review report thereon. Terms that are defined appear in bold the first time they are used.

1. Directors

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

Non-executive

Christine F McLoughlin (Chairman)	Director since 2015, Chairman since 2018
Audette E Exel AO	Director since 2012
Sally A Herman	Director since 2015
Simon C Machell	Director since 2017
Dr Douglas F McTaggart	Director since 2012
Lindsay J Tanner	Director since 2018
Sylvia Falzon	Director since 2018
Ian L Hammond	Director since 2018
Elmer Funke Genaamd Kupper	Appointed 1 January 2020

Executive

Steve Johnston (Group CEO and Managing Director)	Appointed 9 September 2019 (Acting CEO since 26 May 2019)

2. Dividends

A fully franked 2019 final dividend of $571 million (44 cents per share) was paid on 25 September 2019. A fully franked 2020 interim dividend of $328 million (26 cents per share) has been determined since balance date by the directors.

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

3. Review of operations

3.1. Overview of the Suncorp Group

The Suncorp Group has delivered a profit after tax attributable to owners of the Company of $642 million for the half-year ended 31 December 2019 (December 2018: $250 million), which includes a $293 million after tax profit on sale of Capital S.M.A.R.T Group and ACM Parts Pty Ltd to AMA Group Limited (**AMA**).

Profit after tax from continuing operations declined by 7.3% from the prior comparative period. The result was impacted by lower reserve releases, an uplift in regulatory project costs, the impact of the low yield environment, the timing of natural hazards events compared to the prior comparative period and an increasingly competitive mortgage market.

Suncorp continued to leverage the investment in digital and data initiatives over the last three years to deliver further improvements in both the customer interface and back end processes across the three core businesses. The adoption of digital channels by customers continued to grow strongly and is expected to benefit from further investment in the second half of the financial year.

The Group's total operating expenses (excluding Fire Services Levy) decreased by 0.4% to $1,337 million compared to the prior half. After adjusting for the reduction in operating costs following the sale of the Australian Life business, operating expenses increased by 1.1% compared to the prior half. This was primarily driven by an increase in project costs, partially offset by lower deferred acquisition costs (**DAC**).

The series of catastrophic bushfire events during the half resulted in natural hazard costs above allowance for the period. The enhanced reinsurance program put in place provides strong earnings protection in the second half of the financial year.

3.2. Financial position and capital structure

Net assets of the Suncorp Group decreased from $13,133 million at 30 June 2019 to $12,717 million at 31 December 2019. The decrease in net assets of $416 million primarily resulted from the payment of the 2019 final dividend and the capital return of $506 million, 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 the Board approved risk appetite.

At 31 December 2019, the General Insurance Common Equity Tier 1 (**CET1**) capital position was 1.28 times the Prescribed Capital Amount (**PCA**) (June 2019: 1.39 times), the Bank's CET1 ratio was 9.69% (June 2019: 9.27%) and the Life excess CET1 to target was $72 million (June 2019: $606 million; including $506 million of capital return). The Group's excess to CET1 target is $691 million after adjusting for the interim dividend (June 2019: $989 million).

During the half-year, the Group issued $389 million of Additional Tier 1 Capital as part of its capital management strategy. As part of the transaction, $206 million of the existing CPS3 securities were redeemed under a reinvestment offer.

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

3.3. Review of principal businesses

Insurance achieved a profit after tax from continuing operations of $123 million for the half-year ended 31 December 2019 (December 2018: $128 million, adjusted for the sale of the Capital S.M.A.R.T and ACM Parts businesses). The result was impacted by lower reserve releases, higher regulatory costs, increased reinsurance costs and the impact of the low yield environment.

The insurance trading result for Australian general insurance was $148 million (December 2018: $191 million).

Gross written premium (**GWP**) increased by 1.8% to $4,176 million (December 2018: $4,101 million) reflecting GWP growth of 3.1% in Home and Motor, 2.5% growth in Commercial and 20.1% growth in Workers' Compensation and Other portfolios. This was offset by an 8.9% decline in compulsory third party (**CTP**) revenue driven by the ongoing impacts of scheme reforms and market pricing dynamics. Normalising for the impact of portfolio exits in Commercial, GWP growth was 7.7% in this segment with strong premium rate increases in a hardening market, and a focus on growing volume in target markets and maintaining portfolio profitability.

Net incurred claims increased by 0.2% to $2,861 million (December 2018: $2,854 million), due to lower prior year reserve releases and the unfavourable impact of falling yields on the discounting of new claims, partially offset by lower natural hazard costs. The loss ratio was 77.8% (December 2018: 77.4%). Reserve releases decreased by $105 million to $65 million, representing 1.8% of net earned premium. The reserve releases were the result of Personal Injury long tail releases above the Group's long-term target of 1.5%. This was partially offset by strains in the Commercial long tail portfolios and an overall short tail strain of $6 million.

Total investment income on insurance funds and shareholders' funds was $136 million (December 2018: $122 million) benefitting from favourable movements in breakeven inflation, credit spreads and equities compared to the prior comparative period.

Banking & Wealth delivered a profit after tax from continuing operations of $171 million for the half-year ended 31 December 2019 (December 2018: $183 million).

Banking's result benefitted from a stable net interest margin (**NIM**) and low credit impairment losses, offset by one-off fee impacts and elevated operating expenses.

Net interest income increased by 1.5% to $594 million (December 2018: $585 million), with the at-call deposits portfolio growing well above system and the lending portfolio contracting during the period. The average NIM increased by 3 basis points (**bps**) to 1.92% (December 2018: 1.89%, after aligning NIM methodology with peers in June 2019) primarily driven by the favourable shift in the funding mix from the growth in at-call deposits.

Operating expenses increased by 5.9% compared to the prior comparative period, primarily due to investment in regulatory projects and technology. Elevated expenses and lower net non-interest income drove a cost-to-income ratio of 59.6% (December 2018: 56.1%).

Total loans and advances decreased to $58,354 million (June 2019: $59,154 million). The home lending portfolio contracted 1.4% over the period, reflecting low system growth and elevated processing times, particularly within the broker network. The business lending portfolio contracted 1.3% over the period, primarily driven by a reduction in agribusiness lending reflecting ongoing drought conditions. The commercial portfolio reduced marginally over the period driven by early project completion and increased customer repayments.

Impairment losses on loans and advances of $1 million (December 2018: $7 million) reflect Banking's continued focus on sound credit quality and the benefit of loans being repaid or returned to performing. This was offset by newly impaired assets, as well as sustained asset values. Gross impaired assets increased marginally over the half to $153 million, representing 26 bps of gross loans and advances.

Banking's deposit-to-loan ratio of 67.8% remains within the target operating range of 60% to 70%. Suncorp continues to maintain a conservative approach to managing liquidity and funding risk to ensure a sustainable funding profile to support balance sheet growth.

Banking monitors the composition and stability of its funding to remain within the Board approved risk appetite, including compliance with both the Liquidity Coverage Ratio (**LCR**) and Net Stable Funding Ratio (**NSFR**) requirements, with a focus on the stability of the overall funding profile rather than concentrating on a single measure. The NSFR was 116% as at 31 December 2019. The average LCR over the period was 127%, ending the period at 124%, above internal operating targets and Australian Prudential Regulation Authority's (**APRA**) 100% limit.

Wealth's underlying profit after tax was largely in line with the prior comparative period, impacted by increased industry-wide regulatory costs within the superannuation portfolio. The Wealth business is currently under strategic review. Wealth will discontinue its financial advice services from the end of March 2020. Customers who wish to access financial advice will be able to select a financial advisor from a new independent panel of advisory firms.

Suncorp New Zealand (**NZ**) achieved a profit after tax of $102 million for the half-year ended 31 December 2019 (December 2018: $111 million). This comprises a profit after tax of $89 million (December 2018: $95 million) from the New Zealand general insurance business and a profit after tax of $13 million (December 2018: $16 million) from the New Zealand life insurance business.

The New Zealand general insurance business decrease was largely driven by increased natural hazard costs and remediation provisions relating to issues identified with customer discounts in prior periods (which is captured in GWP), offset by strong top-line and earned premium growth.

GWP grew by 7.7% to $827 million (December 2018: $768 million) driven by premium increases across all portfolios and supported by unit growth in the direct business.

Net incurred claims increased by 19.0% to $375 million (December 2018: $315 million), driven by unit growth, a higher frequency of large loss house fires and a normalisation of natural hazard costs in the period. The loss ratio was 53.3% (December 2018: 49.1%).

Net investment income has increased to $11 million (December 2018: $9 million), representing an annualised return of 1.3%.

The New Zealand life insurance business decrease was driven by implementation costs associated with the new accounting standard IFRS17 *Insurance Contracts,* increased technology costs relating to Life systems following the sale of the Australia Life business and adverse claims experience. In-force premium grew by 4.2%, supported by consumer price index and age indexed premium growth.

4. Events subsequent to reporting date

Since 31 December 2019, Suncorp has declared three natural hazard events, being the January bushfires, the South East states hailstorms and the South East Queensland and New South Wales heavy rain. In addition, as at the date of this consolidated interim financial report, the east coast of Australia is being impacted by a significant weather event including heavy rain, strong wind and flooding.

Net retained costs of these subsequent events are expected to be capped at $300 million due to the recoveries available under the combined catastrophe reinsurance protection covers. The Group currently expects to remain within its full-year natural hazard allowance of $820 million due to the existing reinsurance cover.

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

5. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 6 and forms part of the Directors' Report for the half-year ended 31 December 2019.

6. Rounding of amounts

The Company is of a kind referred to in *Australian Securities and Investments Commission* (ASIC) *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.

Christine McLoughlin

CHRISTINE MCLOUGHLIN
Chairman of the Board

STEVE JOHNSTON
Group CEO and Managing Director

11 February 2020

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 2019 there have been:

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

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

KPMG

David Kells
Partner
Sydney
11 February 2020

Consolidated interim statement of comprehensive income

For the half-year ended 31 December 2019

	Note	Dec 2019 $M	Dec 2018 $M
Revenue			
Insurance premium income		5,077	5,000
Reinsurance and other recoveries income		360	715
Interest income on financial assets not at fair value through profit or loss	5	1,116	1,278
Interest income on financial assets at fair value through profit or loss	5	196	239
Dividend and trust distribution income		43	20
Fees and other income		262	257
Total revenue		7,054	7,509
Expenses			
Claims expense and movement in policyowner liabilities		(3,653)	(3,922)
Outwards reinsurance premium expense		(591)	(575)
Underwriting and policy maintenance expenses		(1,087)	(1,071)
Interest expense on financial liabilities not at fair value through profit or loss	5	(545)	(707)
Interest expense on financial liabilities at fair value through profit or loss	5	(23)	(43)
Net losses on financial assets and liabilities at fair value through profit or loss		(40)	(122)
Impairment loss on financial assets	7.2	(1)	(7)
Amortisation and depreciation expense		(131)	(86)
Fees, overheads and other expenses		(455)	(469)
Outside beneficial interests in managed funds		(12)	38
Total expenses		(6,538)	(6,964)
Profit before income tax		516	545
Income tax expense		(160)	(161)
Profit after tax from continuing operations		356	384
Profit (loss) after tax from discontinued operations	15.1	294	(125)
Profit for the period		650	259
Profit for the period attributable to:			
Owners of the Company		642	250
Non-controlling interests		8	9
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges		21	10
Net change in financial assets at fair value through other comprehensive income		(3)	(6)
Exchange differences on translation of foreign operations		2	27
Income tax expense		(5)	(3)
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit plans		-	(7)
Income tax benefit		-	2
Total other comprehensive income for the period		15	23
Total comprehensive income for the period		665	282
Total comprehensive income for the period attributable to:			
Owners of the Company		657	273
Non-controlling interests		8	9
Earnings per share		Cents	Cents
Basic earnings per share		50.16	19.34
Diluted earnings per share		48.27	19.34
Basic earnings per share from continuing operations		27.19	29.40
Diluted earnings per share from continuing operations		26.80	29.16

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

Consolidated interim statement of financial position

As at 31 December 2019

	Note	Dec 2019 $M	Jun 2019 $M
Assets			
Cash and cash equivalents		2,265	1,086
Receivables due from other banks		470	499
Trading securities		897	1,227
Derivatives		639	666
Investment securities		19,210	19,243
Loans and advances	6	58,354	59,154
Premiums outstanding		2,722	2,802
Reinsurance and other recoveries		2,109	2,656
Deferred reinsurance assets		579	898
Deferred acquisition costs		742	723
Property, plant and equipment		609	208
Deferred tax assets		204	242
Goodwill and other intangible assets		5,409	5,460
Other assets		975	1,371
Total assets		95,184	96,235
Liabilities			
Payables due to other banks		289	353
Deposits and short-term borrowings	8	46,782	46,190
Derivatives		451	456
Amounts due to reinsurers		268	776
Payables and other liabilities		1,547	1,437
Current tax liabilities		29	62
Unearned premium liabilities		5,175	5,123
Provisions and employee benefit liabilities		494	543
Outstanding claims liabilities		10,419	10,611
Deferred tax liabilities		131	155
Managed funds units on issue		1,062	847
Securitisation liabilities	9	3,396	3,831
Debt issues	9	9,884	10,358
Loan capital	9	2,540	2,360
Total liabilities		82,467	83,102
Net assets		12,717	13,133
Equity			
Share capital	10	12,398	12,889
Reserves		204	207
Retained profits		98	17
Total equity attributable to owners of the Company		12,700	13,113
Non-controlling interests		17	20
Total equity		12,717	13,133

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 2019

		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 30 June 2018		12,863	135	965	13,963	10	13,973
Impact on initial application of AASB 9 (net of tax)		-	16	(23)	(7)	-	(7)
Restated balance as at 1 July 2018		12,863	151	942	13,956	10	13,966
Profit for the period		-	-	250	250	9	259
Total other comprehensive income for the period		-	28	(5)	23	-	23
Total comprehensive income for the period		-	28	245	273	9	282
Transactions with owners, recorded directly in equity							
Dividends paid	3	-	-	(622)	(622)	(4)	(626)
Treasury share movements	10	17	-	-	17	-	17
Movement in non-controlling interests without a change in control		-	-	(15)	(15)	-	(15)
Transfers		-	14	(14)	-	-	-
Balance as at 31 December 2018		12,880	193	536	13,609	15	13,624
Balance as at 30 June 2019		12,889	207	17	13,113	20	13,133
Impact on initial application of AASB 16 (net of tax)	2.1	-	-	(12)	(12)	-	(12)
Restated balance as at 1 July 2019		12,889	207	5	13,101	20	13,121
Profit for the period		-	-	642	642	8	650
Total other comprehensive income for the period		-	15	-	15	-	15
Total comprehensive income for the period		-	15	642	657	8	665
Transactions with owners, recorded directly in equity							
Dividends paid	3	-	-	(570)	(570)	(11)	(581)
Capital return, including transaction costs	10	(506)	-	-	(506)	-	(506)
Share-based payments	10	(1)	-	(1)	(2)	-	(2)
Treasury share movements	10	16	-	-	16	-	16
Transfers		-	(18)	18	-	-	-
Other movements		-	-	4	4	-	4
Balance as at 31 December 2019		12,398	204	98	12,700	17	12,717

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 2019

	Note	Dec 2019 $M	Dec 2018 $M
Cash flows from operating activities			
Premiums received		5,749	6,115
Claims paid		(4,224)	(4,298)
Interest received		1,340	1,563
Interest paid		(575)	(736)
Reinsurance and other recoveries received		1,050	880
Outwards reinsurance premiums paid		(828)	(931)
Fees and other operating income received		555	315
Dividends and trust distributions received		43	21
Fees and operating expenses paid		(2,109)	(2,080)
Income tax paid		(205)	(207)
Net decrease in operating assets			
Trading securities		330	89
Loans and advances		784	(450)
Net increase in operating liabilities			
Deposits and short-term borrowings		465	98
Net cash from operating activities		2,375	379
Cash flows from investing activities			
Proceeds from the sale or maturity of investment securities		13,438	21,338
Payments for purchase of investment securities		(13,163)	(20,572)
Proceeds from other investing activities		215	4
Disposal of discontinued operations		383	-
Payments for other investing activities		(168)	(28)
Net cash from investing activities		705	742
Cash flows from financing activities			
Payment for capital return, including transaction costs	10	(506)	-
Proceeds from debt issues and securitisation liabilities	9	1,200	1,701
Repayment of debt issues and securitisation liabilities	9	(2,124)	(1,689)
Proceeds from issue of loan capital	9	389	600
Payment on call of loan capital	9	(206)	(770)
Dividends paid		(570)	(622)
Payments for other financing activities		(50)	(20)
Net cash (used in) financing activities		(1,867)	(800)
Net increase in cash and cash equivalents		1,213	321
Cash and cash equivalents at the beginning of the period		1,232	1,491
Effect of exchange rate fluctuations on cash held		1	3
Cash and cash equivalents at the end of the period		2,446	1,815
Cash and cash equivalents at the end of the period comprises:			
Cash and cash equivalents		2,265	1,542
Cash and cash equivalents held for sale		-	195
Receivables due from other banks		470	351
Payables due to other banks		(289)	(273)
		2,446	1,815

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

Notes to the consolidated interim financial statements

For the half-year ended 31 December 2019

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 2019 comprise the Company and its subsidiaries (the **Suncorp Group, Suncorp** or the **Group**) and were authorised for issue by the Board of Directors on 11 February 2020.

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 2019 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 2019 is available upon request from the Company's registered office or at suncorpgroup.com.au/investors/reports.

All accounting policies applied by the Group in this consolidated interim financial report are the same as those applied in its consolidated financial report for the financial year ended 30 June 2019, except for changes from the implementation of the new Australian Accounting Standards as set out in note 2.1.

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

Where necessary, comparatives have been re-presented to conform to changes in presentation in the current half-year. This includes changes due to the sale of Capital S.M.A.R.T. Repairs Australia Pty Ltd and its subsidiaries (**Capital S.M.A.R.T**) and ACM Parts Pty Ltd (**ACM Parts**), which are presented as discontinued operations under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (**AASB 5**). For details on discontinued operations refer to note 15.

AASB 16 *Leases* (**AASB 16**) has been applied from 1 July 2019 and the option not to restate prior period financial statements was elected. The change in classification and measurement from the adoption of AASB 16 was recognised in retained profits on 1 July 2019 as disclosed in note 2.1.

2.1 Implementation of new Australian Accounting Standards

AASB 16 *Leases*

AASB 16 replaced AASB 117 *Leases* (**AASB 117**) and related interpretations.

AASB 16 introduces a single on-balance sheet lease accounting model for lessees which removes the operating or finance lease distinction which was previously required under AASB 117. Lessor accounting remains similar to AASB 117 and lessors will continue to classify leases as finance and operating.

The right-of-use (**ROU**) asset and lease liability is recognised for all leases with the exception of short-term leases (less than 12 months) and leases of low-value items which are exempted under AASB 16.

Transition

The Group adopted AASB 16 using the modified retrospective approach. In accordance with the transitional provisions under AASB 16 the comparative information has not been restated and continues to be reported under the previous standard AASB 117.

The Group determined the ROU asset as an amount equal to the lease liability for all significant real estate leases and motor vehicle leases. For all other real estate leases, the ROU asset was determined as if AASB 16 had always been applied, the resulting transitional adjustment was recognised in retained earnings on transition date.

On transition the Group recognised a lease liability of $573 million presented in the 'Payables and other liabilities' line item and a ROU asset of $514 million presented in the 'Property, plant and equipment' line item. Amounts already recognised on the consolidated statement of financial position at 30 June 2019 (i.e. onerous lease provisions and straight-line lease liabilities) of $42 million were derecognised and offset against the ROU asset on transition which resulted in a reduction to retained profits after tax of $12 million.

The table below presents a reconciliation of the operating lease commitments as disclosed in the Group's 30 June 2019 financial statements, to the lease liability recognised on transition date:

	$M
Operating lease commitment – 30 June 2019	957
Less:	
Leases not commenced on 1 July 2019	(338)
Impact of discounting future lease payments at the weighted average incremental borrowing rate	(44)
Other (incl. short-term leases not recognised as a lease liability)	(2)
Lease liability 1 July 2019	**573**

The Group's weighted average incremental borrowing rate (**IBR**) at transition date was 2.17%. The IBR is determined by the reference rate and the corresponding financing spread. The reference rate takes into account the risk-free rate for the country where the lessee is domiciled, whereas the financing spread considers factors such as credit rating and lease term.

Amendments to accounting policy

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. At inception, or on reassessment of a contract that contains a lease, the Group will allocate the consideration in the contract to each lease component unless an election is made to account for the lease and non-lease components as a single lease component.

The Group's lease portfolio includes real estate leases and motor vehicle leases.

Prior to 1 July 2019, the leases were classified as operating leases, accordingly lease rental expense was recognised in the consolidated statement of comprehensive income as part of 'Fees, overheads and other expenses'.

The Group recognises the lease liability and the corresponding ROU asset at the commencement of the lease.

Lease liabilities

Lease liabilities are measured at amortised cost using the effective interest method. Interest expense is recognised in the consolidated statement of comprehensive income in the 'Interest expense on financial liabilities not at fair value through profit or loss' line item. The lease liabilities are presented in the consolidated statement of financial position in the 'Payables and other liabilities' line item.

The lease liabilities are remeasured when there is a change in the contractual cash flow (i.e. due to a change in an index, rate or term). Any remeasurements resulting in a corresponding adjustment to the ROU asset or where the ROU asset has a value of nil, then it has to be recognised in the consolidated statement of comprehensive income.

Right-of-use asset

The ROU asset is measured at cost and represents the amount equal to the lease liability on initial recognition, along with any lease payments made at or before the commencement date and less any lease incentives received. The ROU asset is presented in the consolidated statement of financial position in the 'Property, plant and equipment' line item.

The ROU asset is depreciated in accordance with the methods prescribed under AASB 116 *Property, Plant and Equipment*. The depreciation is presented in the consolidated statement of comprehensive income in the 'Amortisation and depreciation expense' line item.

2.2 Use of estimates and judgments

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

The significant judgments made by management in applying the Suncorp Group accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial report as at and for the financial year ended 30 June 2019, except for new significant judgments related to lessee accounting under AASB 16 as outlined in note 2.1.

The changes in estimates and the movements over the half-year ended 31 December 2019 for the provision for impairment and gross carrying amount of loans and advances in different expected credit loss (**ECL**) stages are set out in note 7.

3. Dividends

	Dec 2019		Dec 2018	
	Cents per share	$M	Cents per share	$M
Dividend payments on ordinary shares				
2019 final dividend (December 2018: 2018 final dividend)	44	571	40	519
2019 special dividend (December 2018: 2018 special dividend)	-	-	8	104
Dividends paid on treasury shares		(1)		(1)
Total dividends on ordinary shares paid to owners of the Company	44	570	48	622
Dividends not recognised in the consolidated interim statement of financial position[1]				
Dividends determined since balance date				
2020 interim dividend (December 2018: 2019 interim dividend)	26	328	26	338

1 The total 2020 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 2019. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2020 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 Group 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 insurance products and services and distribution of life insurance products 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, CTP, loan protection, equity and cash benefit.
Banking & Wealth	– Design, manufacture and delivery of banking and superannuation and fund administration services to customers in Australia. – Key products include commercial, agribusiness, small business, home and personal loans, savings and transaction accounts, foreign exchange, treasury products and services, superannuation and funds administration services.
Suncorp New Zealand	– Design, manufacture and delivery of general and life insurance products to customers in New Zealand. – Key products include home and contents, motor, commercial property, public liability and professional indemnity, life, trauma, total and permanent disablement and income protection.
Corporate	– Investment of the Suncorp Group's capital, Suncorp Group business strategy activities (including business combinations and divestments) and Suncorp Group shared services.

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

The basis of measurement of segment results are generally the same as those applied by the Suncorp Group in its consolidated financial report for the financial year ended 30 June 2019, with the exception of the discontinued operations being measured under AASB 5. The sale of Capital S.M.A.R.T and ACM Parts will impact the Insurance segment. For details on discontinued operations refer to note 15.

	Insurance $M	Banking & Wealth $M	Suncorp New Zealand $M	Corporate $M	Total $M
Half-year ended 31 December 2019					
External revenue[1]	4,912	1,255	1,017	406	7,590
Inter-segment revenue	7	1	-	-	8
Total segment revenue	4,919	1,256	1,017	406	7,598
Segment revenue continuing operations	4,780	1,256	1,017	11	7,064
Segment revenue discontinued operations	139	-	-	395	534
Segment profit before income tax	176	244	139	309	868
Segment income tax expense	(52)	(73)	(37)	(56)	(218)
Segment profit after income tax	124	171	102	253	650
Segment profit (loss) after tax continuing operations	123	171	102	(40)	356
Segment profit after tax discontinued operations	1	-	-	293	294
Other segment disclosures					
Goodwill	4,191	254	283	-	4,728
Half-year ended 31 December 2018					
External revenue[1]	5,925	1,466	937	15	8,343
Inter-segment revenue	7	1	3	-	11
Total segment revenue	5,932	1,467	940	15	8,354
Segment revenue continuing operations	5,153	1,425	940	15	7,533
Segment revenue discontinued operations	779	42	-	-	821
Segment profit (loss) before income tax	177	216	154	(199)	348
Segment income tax (expense) benefit	(42)	(10)	(43)	6	(89)
Segment profit (loss) after income tax	135	206	111	(193)	259
Segment profit (loss) after tax continuing operations	128	183	111	(38)	384
Segment profit (loss) after tax discontinued operations	7	23	-	(155)	(125)
Other segment disclosures					
Impairment of goodwill	-	-	-	(145)	(145)
Goodwill	4,195	254	286	-	4,735

1 External revenue in the above table is grossed up for Capital S.M.A.R.T and ACM Parts since the profit before income tax is reflected in 'Claims expense and movement in policyowner liabilities' in the consolidated interim statement of comprehensive income.

4.2 Reconciliation of reportable segment revenues and profit before income tax

	Dec 2019	Dec 2018	Dec 2019	Dec 2018
	Revenue		Profit before income tax	
	$M	$M	$M	$M
Segment total	7,598	8,354	868	348
Consolidation adjustments relating to intra-group investment income	(12)	(17)	3	1
Other consolidation eliminations	2	(7)	(3)	(1)
Attributable to discontinued operations	(534)	(821)	(352)	197
Consolidated total	7,054	7,509	516	545

5. Net interest income

	Dec 2019 $M	Dec 2018 $M
Interest income		
Cash and cash equivalents	2	4
Receivables due from other banks	1	1
Investment securities not at fair value through profit or loss	54	65
Loans and advances	1,059	1,208
Interest income on financial assets not at fair value through profit or loss	1,116	1,278
Trading securities	7	15
Investment securities at fair value through profit or loss	189	224
Interest income on financial assets at fair value through profit or loss	196	239
Total interest income	1,312	1,517
Interest expense		
Deposits and short-term borrowings at amortised cost	(314)	(420)
Securitisation liabilities	(43)	(73)
Debt issues	(138)	(155)
Loan capital	(44)	(59)
Leases[1]	(6)	-
Interest expense on financial liabilities not at fair value through profit or loss	(545)	(707)
Deposits and short-term borrowings designated at fair value through profit or loss	(19)	(27)
Derivatives	(4)	(16)
Interest expense on financial liabilities at fair value through profit or loss	(23)	(43)
Total interest expense	(568)	(750)
Net interest income	744	767

1 Suncorp is using the modified retrospective approach on transition to AASB 16 and comparative information has not been restated.

6. Loans and advances

	Note	Dec 2019 $M	Jun 2019 $M
Financial assets at amortised cost			
Housing loans		47,157	47,811
Consumer loans		152	149
Retail loans		47,309	47,960
Business loans		11,181	11,333
Other lending		-	3
Non-retail loans		11,181	11,336
Gross loans and advances		58,490	59,296
Provision for impairment	7.1	(136)	(142)
Net loans and advances		58,354	59,154
Current		11,202	11,127
Non-current		47,152	48,027
Net loans and advances		58,354	59,154

7. Provision for impairment on financial assets

7.1 Reconciliation of provision for impairment on financial assets

The table below shows the reconciliation of the ECL for the half-year ended 31 December 2019.

	Half-year to Dec 2019 $M	Jun 2019 $M	Dec 2018 $M
Collective provision			
Balance at the beginning of the period	111	111	111
Transfer to specific provision	(4)	(2)	(3)
Charge (write-back) against impairment losses	(4)	2	3
Balance at the end of the period	103	111	111
Specific provision			
Balance at the beginning of the period	31	34	39
Transfer from collective provision	4	2	3
New and increased provisions	8	5	8
Write-back of provisions no longer required	(4)	(5)	(8)
Specific provisions written off	(4)	(3)	(6)
Unwind of discount	(2)	(2)	(2)
Balance at the end of the period	33	31	34
Total provision for impairment	136	142	145

7.2 Impairment loss on financial assets

	Half-year to Dec 2019 $M	Jun 2019 $M	Dec 2018 $M
Decrease in collective provision for impairment	(8)	-	-
Increase in specific provision for impairment	8	2	3
Bad debts written off	2	5	4
Bad debts recovered	(1)	(1)	-
Total impairment loss on loans and advances	1	6	7

8. Deposits and short-term borrowings

	Dec 2019 $M	Jun 2019 $M
Financial liabilities at amortised cost		
Call deposits	24,734	22,141
Term deposits	14,496	16,401
Short-term securities issued	5,154	5,376
Total financial liabilities at amortised cost	44,384	43,918
Financial liabilities designated at fair value through profit or loss		
Offshore commercial papers	2,398	2,272
Total deposits and short-term borrowings	46,782	46,190
Current	46,544	45,959
Non-current	238	231
Total deposits and short-term borrowings	46,782	46,190

Deposits and short-term borrowings obtained under repurchase agreements with the Reserve Bank of Australia and outstanding at 31 December 2019 are $301 million (30 June 2019: $302 million).

9. Issues and repayments of debt securities

	Liabilities arising from financing activities		
	Securitisation liabilities $M	Debt issues $M	Loan capital $M
Balance as at 1 July 2018	4,848	9,854	2,529
Cash flows			
Proceeds	-	1,701	600
Repayments	(571)	(1,118)	(770)
Transaction costs	-	-	(4)
Non-cash changes	1	165	2
Balance as at 31 December 2018	4,278	10,602	2,357
Cash flows			
Proceeds	-	1,416	(600)
Repayments	(449)	(1,765)	600
Transaction costs	-	(5)	1
Non-cash changes	2	110	2
Balance as at 30 June 2019	3,831	10,358	2,360
Cash flows			
Proceeds	-	1,200	389
Repayments	(437)	(1,687)	(206)
Transaction costs	-	(2)	(6)
Non-cash changes	2	15	3
Balance as at 31 December 2019	3,396	9,884	2,540

On 17 December 2019, the Company issued $389 million of Capital Notes 3 (**CN3**) for $100 per note. They are fully paid, perpetual, subordinated and unsecured securities. The Company has an option to exchange all or some of the notes on 17 June 2026, subject to approval by Australian Prudential Regulation Authority (**APRA**), or the notes will otherwise mandatorily convert into ordinary shares on 17 June 2028. If APRA determines a non-viability event has occurred in relation to the Company, some or all of the capital notes will be immediately converted into a variable number of the Company's ordinary shares or, if conversion is not possible, written off.

$206 million of convertible preference shares (**CPS3**) were exchanged and reinvested in CN3 as part of a reinvestment offer with $194 million CPS3 remaining on issue. The Company has an option to exchange the remaining CPS3 on 17 June 2020 and will consider whether to do so closer to this date. CPS3 and CN3 are disclosed within the consolidated interim statement of financial position category of 'Loan capital'.

10. Share capital

	Number of ordinary shares	Issued capital $M	Share-based payments $M	Treasury shares $M	Total share capital $M
Balance as at 1 July 2018	1,298,503,953	12,874	84	(95)	12,863
Treasury share movements	-	-	-	17	17
Balance as at 31 December 2018	1,298,503,953	12,874	84	(78)	12,880
Share-based payments	-	-	7	-	7
Treasury share movements	-	-	-	2	2
Balance as at 30 June 2019	1,298,503,953	12,874	91	(76)	12,889
Shares issued[1]	2	-	-	-	-
Capital return and share consolidation[2]	(37,553,178)	(506)	-	-	(506)
Share-based payments	-	-	(1)	-	(1)
Treasury share movements	-	-	-	16	16
Balance as at 31 December 2019	1,260,950,777	12,368	90	(60)	12,398

1 On 17 December 2019, 2 ordinary shares were issued at the issue price of $13.00 per share to partially fund the redemption of CPS3 by Suncorp Group Limited under the CN3 Reinvestment Offer.

2 A capital return of 39 cents per ordinary share was paid on 24 October 2019, in conjunction with a share consolidation.

11. Fair value of financial instruments

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

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

– Level 2: derived from other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.

– Level 3: fair value is determined using valuation techniques which include significant inputs that are unobservable. The valuation techniques include the use of discounted cash flow models for loans and advances. The fair value of investments in infrastructure assets (held via unlisted trusts) are determined based on the Group's share of the net asset value of the unlisted trusts, as advised by the external investment manager. The fair value of other unlisted equity securities is determined as the cost of the investment adjusted for known increments or decrements as this is considered to be the most reliable measure of fair value.

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 2019				Jun 2019			
	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	37	860	-	897	-	1,227	-	1,227
Fair value through profit or loss[1,2]	2,145	12,875	229	15,249	2,943	12,104	242	15,289
Fair value through other comprehensive income[1]	-	3,926	35	3,961	-	3,954	-	3,954
Derivatives	16	623	-	639	7	659	-	666
	2,198	18,284	264	20,746	2,950	17,944	242	21,136
Financial liabilities								
Offshore commercial papers[3]	-	2,398	-	2,398	-	2,272	-	2,272
Derivatives	11	440	-	451	9	447	-	456
Managed funds units on issue	-	1,062	-	1,062	-	847	-	847
	11	3,900	-	3,911	9	3,566	-	3,575

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

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

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

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

Level 3 financial assets consist of investments in unlisted equity securities of $46 million (30 June 2019: $11 million) and investments in infrastructure assets of $218 million (30 June 2019: $231 million).

Purchases of unlisted equity securities classified at level 3 totalled $35 million (2018: $nil), this included the 10% holding retained in Capital S.M.A.R.T as disclosed in note 15. There have been no remeasurements through profit or loss and no sales during the current or prior half-year.

During the half-year, no additional units of infrastructure assets were purchased (2018: $38 million) while units were redeemed for $17 million (2018: $nil). Fair value gain of $4 million (2018: $2 million loss) was recognised through ‘Net losses on financial assets and liabilities at fair value through profit or loss’.

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 2019.

			Fair value			
	Note	Carrying value $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 31 December 2019						
Financial assets						
Loans and advances	6	58,354	-	-	58,494	58,494
		58,354	-	-	58,494	58,494
Financial liabilities						
Deposits and short-term borrowings at amortised cost	8	44,384	-	44,424	-	44,424
Securitisation liabilities	9	3,396	-	3,408	-	3,408
Debt issues	9	9,884	-	10,027	-	10,027
Loan capital	9	2,540	1,366	1,244	-	2,610
		60,204	1,366	59,103	-	60,469
As at 30 June 2019						
Financial assets						
Loans and advances	6	59,154	-	-	59,325	59,325
		59,154	-	-	59,325	59,325
Financial liabilities						
Deposits and short-term borrowings at amortised cost	8	43,918	-	43,994	-	43,994
Securitisation liabilities	9	3,831	-	3,840	-	3,840
Debt issues	9	10,358	-	10,499	-	10,499
Loan capital	9	2,360	1,194	1,243	-	2,437
		60,467	1,194	59,576	-	60,770

12. Related parties

Arrangements for related parties continue to be in place as disclosed in the Group's consolidated financial report for the financial year ended 30 June 2019.

13. Provisions and contingent liabilities

13.1 Provisions

Provisions are recognised for present obligations arising from past events where a payment (or other economic transfer) is probable to be necessary to settle the obligation and can be reliably estimated.

There have not been material movements in 'Provisions and employee benefit liabilities' since 30 June 2019.

13.2 Contingent liabilities

There are contingent liabilities facing the Suncorp Group in respect of the matters below. To the extent these costs can be reliably estimated, they have been reflected as part of the Group's provisions. Other than as provided for, the Suncorp Group is of the opinion that the outcome and total costs arising from these matters remain uncertain at this time.

Regulatory and internal reviews

Reviews and enquiries from regulators may result in investigation costs, administrative costs, legal costs and compensation and / or remediation payments (including interest) or fines. In addition, Suncorp conducts internal reviews of its regulatory compliance which have resulted in disclosures to the regulators and may result in similar costs.

During the half-year, a number of regulators including ASIC, APRA, Australian Transaction Reports Analysis Centre (**AUSTRAC**) and the Australian Taxation Office (**ATO**) conducted reviews and enquiries with the Suncorp Group. There were a number of non-compliance instances identified and disclosed by Suncorp to the applicable regulator. This included breaches reported to ASIC in relation to financial advice given, pricing of products, the failure to provide disclosure documentation, fees for no service and other matters. Correspondence with APRA included resubmissions of prudential returns and notification of a breach of regulatory outsourcing standards in relation to some services outsourced by Suncorp Portfolio Services Limited (**SPSL**).

In November 2019, the Senate referred an inquiry to the Economic References Committee into the causes, extent and effects of unlawful underpayment of employees' remuneration. Suncorp has recently initiated an internal review in relation to our processes and any potential financial impact cannot be reliably estimated at this time.

It remains uncertain what other regulatory or internal reviews or notifications of non-compliance may arise or may be required.

An assessment of the likely cost to the Group of these reviews and actions has been made on a case by case basis but cannot always be reliably estimated. To the extent that the potential impact can be reliably estimated, the amount has been provisioned.

Customer complaints

Australian Financial Complaints Authority (**AFCA**) has the power to award compensation up to certain thresholds on complaints raised by customers. The Group is working through the individual cases that have been raised to AFCA.

An assessment of the likely cost to the Group of these reviews and actions has been made on a case by case basis but cannot always be reliably estimated. To the extent that the potential impact can be reliably estimated, the amount has been provisioned.

Royal Commission

The 2019 report of the Royal Commission into Misconduct in the Banking Superannuation and Financial Services Industry (**Royal Commission**) set out 76 policy recommendations to strengthen protections for consumers, small business and rural and regional communities. A comprehensive program of work is currently underway to implement the reforms that have resulted from the recommendations and to enhance our focus on culture and compliance matters. The Government's program in response to the recommendations of the Royal Commission continues to evolve. The Suncorp Group will monitor and respond to any additional legislation and regulatory activity that may arise as a result of this program. The Suncorp Group is accordingly of the opinion that at this time the outcome and total costs which may arise from regulatory reform remain uncertain.

In addition to policy matters, the report sets out details of various case studies, made observations in respect of each and in some instances referred matters to regulators for further enquiry. The Commissioner has referred two specific matters relating to SPSL to regulators being the utilisation of a tax surplus to fund administration costs and the timing of the transfer of Accrued Default Amounts. Provisions have been recognised for the costs of investigation of these matters. The Suncorp Group is of the opinion that at this time the outcome and total costs which may arise from these referrals remain uncertain. It remains uncertain whether any other enquiries or claims may arise following the case studies and observations in the report.

Litigation

As disclosed to the ASX on 1 July 2019, a class action has been filed against SPSL, being the trustee of the Suncorp Master Trust and two former SPSL executive directors. The class action alleges trustee failures by allowing commissions to be paid to Australian Financial Services Licensed companies (financial advisers) between 1 July 2013 to 21 June 2019. The class action has been filed on an open basis for all persons whose accounts were alleged to have been affected by the payment of conflicted remuneration from 1 July 2013 to 21 June 2019. The Suncorp Group is defending this matter. Suncorp has made provisions for legal, investigation and other defence costs. The Suncorp Group is of the opinion that at this time the outcome and any potential exposures remain uncertain.

There are outstanding court proceedings, potential fines, claims and possible claims against the Suncorp Group, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Suncorp Group does not consider the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, likely to have a material effect on its operations or financial position.

An assessment of the likely cost to the Group of these matters has been made on a case by case basis but cannot always be reliably estimated. To the extent that the potential impact can be reliably estimated, the amount has been provisioned.

Customer remediation

In response to both regulatory and internal reviews, the Suncorp Group is currently undertaking a number of programs of work to resolve prior issues that have the potential to impact customers. An assessment of the Suncorp Group's likely loss has been considered on a case by case basis. To the extent that the potential impact can be reliably estimated the amount has been provisioned.

Contingent liabilities may exist in respect of actual or potential claims, compensation payments and / or remediation payments (including interest) identified as part of existing programs of work or as part of future programs responding to regulatory or internal reviews. The outcomes and total costs associated with these reviews and possible exposures remain uncertain.

Sale of businesses

As part of the sale of Suncorp Life & Superannuation Limited (**SLSL**), the Suncorp Group provided warranties and indemnities to SLSL and TAL Dai-ichi Life Australia Pty Ltd (**TAL**). These included warranties, indemnities and remediation obligations in regards to the provision of services and products in accordance with terms and conditions of the contractual arrangements. The outcomes and costs of these potential warranties and indemnities remain uncertain.

As part of the sale of Capital S.M.A.R.T and ACM Parts, the Suncorp Group provided warranties in the respective Share Sale and Purchase Agreements entered into with AMA. Whilst provisions in relation to the sale have been made where the amounts can be reliably estimated, any outflows relating to the warranties remain uncertain.

Tax

Suncorp is subject to regular reviews by the ATO and other revenue authorities of its taxation treatment which may result in additional tax liability or tax refund. The Suncorp Group engages with these authorities and provides responses as requested. To the extent reasonably possible, the Group has recognised its tax payable as a current tax liability. There are no current disputes with the ATO.

Other

Since October 2019, Australia has been impacted by severe weather and natural hazards that have led to extensive damage and impacts to some of the Group's customers. During the half-year, the Group has responded to these events by announcing relief packages to provide customers with flexible finance options. As at

31 December 2019, the Group has provided for its expected credit losses from these events as part of its impairment provision on loan and advances in note 7.1. As natural hazards and weather events are still unfolding there is an element of uncertainty on the Group's potential exposure until more information surrounding these events is available.

Certain subsidiaries act as trustee for various trusts. In this capacity, the subsidiaries are liable for the debts of the trusts and are entitled to be indemnified out of the trust assets for all liabilities incurred on behalf of the trusts.

In the ordinary course of business, the Suncorp Group enters into various types of investment contracts that can give rise to contingent liabilities. It is not expected that any significant liability will arise from these types of transactions as any losses or gains are offset by corresponding gains or losses on the underlying exposures.

Under the terms of its contracts with NZ advisers, the Group would potentially acquire the entitlement of individual retiring advisers to future income streams from renewal commission should the advisers themselves be unable to find an approved buyer within six months of the date that the agreement ends. The liability for future renewal commission is contained in the Group's policy liabilities, and therefore these potential transactions do not result in any change to the Group's net assets or profit or loss. In practice these transactions are not frequent, and management do not consider the consequent acceleration of the timing of underlying cash flows to be material.

14. Share-based payments

The Short-term incentives (**STI**) deferred plan is share rights offered to the Group CEO, Senior Leadership Team (**SLT**) and Executive General Manager level roles as part of their remuneration package under the Suncorp Equity-Based Deferral Plan. On 9 August 2019, 293,871 (December 2018: 547,802) equity-settled rights were offered under STI arrangements at a total fair value of $3,900,000 (December 2018: $8,543,000). Total STI deferred into equity-settled rights expensed for the half-year ended 31 December 2019 is $4,449,000 (December 2018: $4,194,000).

The Long-term incentives (**LTI**) are performance rights granted to the Group CEO, SLT and other eligible employees as part of their remuneration package under the Suncorp Group Equity Incentives Plan. During the half-year ended 31 December 2019, 626,782 (December 2018: 733,584) performance rights were offered under LTI arrangements at a total fair value of $4,733,000 (December 2018: $6,176,000). Total LTI expensed for the half-year ended 31 December 2019 is $2,238,000 (December 2018: $2,456,000).

The Share rights plan (**SRP**) are granted to employees in senior roles below executive level. During the half-year ended 31 December 2019, 155,713 (December 2018: 179,325) share rights were offered at a total fair value of $2,150,000 (December 2018: $2,747,000). Total share rights expensed for the half-year ended 31 December 2019 is $1,258,000 (December 2018: $1,538,000).

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

15. Discontinued operations

Sale of the Australian Life Business

Suncorp's sale of SLSL to TAL was completed on 28 February 2019.

The loss on sale after tax was $910 million. A $155 million loss, which included $145 million for goodwill impairment, was recognised in the half-year ended 31 December 2018 when SLSL was classified as held for sale. The remaining loss was recognised in the second half of the financial year ended 30 June 2019.

Sale of Capital S.M.A.R.T and ACM Parts

On 31 October 2019, Suncorp completed the sale of Capital S.M.A.R.T and ACM Parts to AMA. Total consideration from the sale was $448 million, which included the fair value of 10% interest retained by Suncorp in Capital S.M.A.R.T via a newly formed holding company with AMA. The gain on sale after tax was $293 million, which included $44 million of transaction and separation costs, and derecognition of net assets of $53 million.

Under the 15-year strategic partnership agreement (with two five-year options by Suncorp to extend) negotiated during the financial year ended 30 June 2019, Suncorp customers will continue to receive smash repair services through the Capital S.M.A.R.T network.

15.1 Profit and loss from discontinued operations

The table below shows the profit and loss from discontinued operations for the period ended 31 December 2019 and the comparative period. It contains the revenue, expenses and profit after tax for Capital S.M.A.R.T and ACM Parts for the period ended 31 December 2019 and for Capital S.M.A.R.T, ACM Parts and SLSL for the comparative period. The profit and loss from discontinued operations also includes impairment of goodwill, transaction and separation costs and tax benefits (expenses) from the respective sales.

	Dec 2019 $M	Dec 2018 $M
Revenue	139	821
Operating expenses	(138)	(863)
Net profit (loss) before income tax	1	(42)
Income tax benefit	-	72
Profit after tax	1	30
Gain on sale of Capital S.M.A.R.T and ACM Parts	395	-
Impairment of goodwill of SLSL	-	(145)
Transaction and separation costs	(44)	(10)
Income tax expense	(58)	-
Profit (loss) on sale (net of transaction costs and tax)	293	(155)
Profit (loss) after tax from discontinued operations	294	(125)

15.2 Cash flows from discontinued operations

The table below presents the net cash from (used in) operating, investing and financing activities for discontinued operations for the period ended 31 December 2019 and the comparative period. It contains the cash flows for discontinued operations, plus the incurred transaction and separation costs, which are part of the net cash used in investing activities.

	Dec 2019 $M	Dec 2018 $M
Net cash from operating activities	14	21
Net cash from investing activities	363	168
Net cash (used in) financing activities	(4)	(110)
Net cash inflows from discontinued operations	373	79

16. Subsequent events

Since 31 December 2019, Suncorp has declared three natural hazard events, being the January bushfires, the South East states hailstorms and the South East Queensland and New South Wales heavy rain. In addition, as at the date of this consolidated interim financial report, the east coast of Australia is being impacted by a significant weather event including heavy rain, strong wind and flooding.

Net retained costs of these subsequent events are expected to be capped at $300 million due to the recoveries available under the combined catastrophe reinsurance protection covers. The Group currently expects to remain within its full-year natural hazard allowance of $820 million due to the existing reinsurance cover.

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

Directors' declaration

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

1) The consolidated interim financial statements and notes set out on pages 7 to 27, are in accordance with the *Corporations Act 2001*, including:

   a. giving a true and fair view of the Suncorp Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

   b. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*; and

2) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Christine McLoughlin

CHRISTINE MCLOUGHLIN

Chairman of the Board

11 February 2020

STEVE JOHNSTON

Group 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 2019 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 2019;
- Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date;
- Notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' declaration.

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

Responsibilities of the Directors for the Consolidated interim financial report

The Directors of the Company are responsible for:

- the preparation of the Consolidated interim financial report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- 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 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Suncorp Group Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

David Kells

Partner

Sydney

11 February 2020

Tanya Gilerman

Partner