SUNCORP GROUP LIMITED AND SUBSIDIARIES
ABN 66 145 290 124

Consolidated interim financial report

For the half-year ended 31 December 2021

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Directors' report

The directors present their report together with the consolidated interim financial statements of Suncorp Group Limited (the **Company**) and its subsidiaries (the **Suncorp Group**, **Suncorp** or the **Group**) for the half-year ended 31 December 2021 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 McLoughlin, AM (Chairman)	Director since 2015, Chairman since 2018
Sylvia Falzon	Director since 2018
Elmer Funke Kupper	Director since 2020
Ian Hammond	Director since 2018
Sally Herman	Director since 2015
Simon Machell	Director since 2017
Douglas McTaggart	Director since 2012
Lindsay Tanner	Director since 2018
Duncan West	Appointed 23 September 2021

Executive

Steve Johnston (Group Chief Executive Officer and Managing Director)	Executive Director since 2019

2. Dividends

A fully franked 2021 final dividend of $513 million (40 cents per share) and a fully franked special dividend of $103 million (8 cents per share) were paid on 22 September 2021. A fully franked 2022 interim dividend of $290 million (23 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 10 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 $388 million for the half-year ended 31 December 2021 (December 2020: $490 million).

Profit after tax reduced by 20.8% from the prior comparative period. This was driven by large natural hazard events resulting in natural hazard costs of $695 million, which was $205 million above the half year allowance, and investment market volatility.

COVID-19 related impacts included reduced motor claims frequency in Insurance partly offset by increased claims costs associated with higher second hand car prices and supply chain impacts, delays in claims lodgement and closure, industry support and higher operating expenses. Bank related impacts included increase in savings due to lock down supporting customer funding and loan provision related impacts across the bank portfolios (i.e. net release of provision).

The Group's total operating expenses (excluding Fire Services Levies (**FSL**) and Transitional Excess Profits and Losses (**TEPL**) provision) were $1,415 million, an increase of 3.1% from the prior comparative period. This largely reflects temporary increase in project spend associated with the Group's strategy as well as growth related costs.

The sale of Suncorp's 50% stake in RACT Insurance Pty Ltd (**RACTI**) completed in November 2021 resulted in a pre-tax gain of $65 million. The sale of the Wealth business is expected to be completed in the second half of the financial year ending 30 June 2022 (subject to regulatory approvals).

3.2. Financial position and capital structure

Net assets of the Suncorp Group decreased from $13,448 million at 30 June 2021 to $12,969 million at 31 December 2021. The decrease in net assets of $479 million primarily resulted from the payment of the 2020-21 financial year final and special dividends and completion of an on market buy-back, 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.

During the half-year, Suncorp completed a $250 million on market buy-back, with a total of 20.4 million shares purchased and subsequently cancelled. Suncorp will continue to reassess its capital requirements taking into account the economic outlook and any regulatory guidance.

At 31 December 2021, the General Insurance Common Equity Tier 1 (**CET1**) (pre-dividend) capital position was 1.28 times the Prescribed Capital Amount (June 2021: 1.28 times) and the Bank's CET1 ratio (pre-dividend) was 9.91% (June 2021: 10.07%). The CET1 capital held at Group is $492 million after adjusting for the interim dividend (June 2021: $637 million after adjusting for the final and special 2020-21 financial year dividends).

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

3.3. Review of principal businesses

Insurance (Australia) achieved a profit after tax of $114 million for the half-year ended 31 December 2021 (December 2020: $258 million). This was impacted by lower investment returns and adverse natural hazards experience. Reduced motor claims frequency was partly offset by increased claims costs including supply chain impacts, delays in claims lodgements and closure, industry support and higher operating expenses.

The insurance trading result for Australian general insurance business was $150 million (December 2020: $282 million).

Gross written premium (**GWP**) (excluding FSL) increased by 5.1% to $4,474 million (December 2020: $4,255 million). Excluding portfolio exits, GWP growth of 7.5% was strong and broad based across portfolios, reflected by GWP growth of 7.8% in motor, 8.3% growth in home, 5.6% growth in Commercial, 13.3% growth in Workers' Compensation and Other and 6.2% growth in Compulsory Third Party.

Net incurred claims of $2,923 million increased by 1.8% from prior comparative period (December 2020: $2,871 million), due to higher natural hazard costs and the impact of portfolio growth, partially offset by the COVID-19 impact in the current period resulting in a reduction in motor claims frequency. In the Consumer portfolio, working claims performance was strong due to lower frequency and cost management. The loss ratio was 73.4% (December 2020: 77.0%).

The valuation of outstanding claims has resulted in central estimate releases of $162 million ($101 million excluding business interruption and TEPL), which is above the Group's long-run expectation for reserve releases of 1.5% of Group Net Earned Premium (**NEP**).

Total investment income across insurance funds and shareholder funds was $4 million (December 2020: $305 million). The net impact of yields and investment markets across investment assets and net incurred claims is $77 million (December 2020: $296 million) primarily driven by gains from higher breakeven inflation, equities, infrastructure, and property. This was partially offset by widening credit spreads.

Banking delivered a profit after tax of $200 million for the half-year ended 31 December 2021 (December 2020: $190 million).

Bank's result benefited from growth in loan balances and a net impairment release, partly offset by a lower net interest margin (NIM) and increased expenses to support strategic investment and volume growth.

Net interest income increased by 0.5% to $621 million (December 2020: $618 million), as higher lending balances were mostly offset by the contraction in NIM. NIM decreased by 12 basis points (bps) over the half-year to 1.97% (June 2021: 2.09%, December 2020: 2.04%) due to reduced home lending margins from competitive pressures and movements in market rates, higher fixed rate home lending mix, partly offset by active management of customer deposits pricing.

Operating expenses of $366 million increased 1.1% on the prior comparative period, primarily due to increased strategic investment and personnel costs to support volume growth, partly offset by branch optimisation benefits and lower technology spend. This resulted in a cost-to-income ratio of 57.6% (December 2020: 56.5%).

Total gross loans and advances increased to $58,613 million (June 2021: $57,563 million). The home lending portfolio increased 2.7% over the over the half-year (5.3% annualised), driven by significant increase in lodgements and settlements from prior comparative period partially offset by elevated customer repayments, external refinances, and property sales. The business lending portfolio declined by 1.2% over the half-year, predominantly driven by an increase in seasonal grain and mixed farming repayments in the Agribusiness portfolio.

Net impairment release on loans and advances of $16 million (December 2020: net impairment loss of $8 million) was predominantly driven by reduction in the collective provision due to continued improvement in economic conditions since the outbreak of COVID-19 and a $2 million specific provision release attributed to an agribusiness property sale.

The expected credit loss has reduced by $15 million over the half year to $180 million. This reduction largely reflects the improved credit risk profile of the portfolio since June 2021 as a result of improving economic conditions and strong property markets.

The specific provision reduced by $5 million over the half-year to $39 million primarily due to write offs of $3 million spread evenly across the retail, commercial, agribusiness and SME portfolios and the release of a specific provision associated with an agribusiness customer due to a favourable property sale.

The Bank continues to maintain a conservative approach to managing liquidity and funding risk to ensure a sustainable funding profile to support balance sheet growth.

Wealth's underlying profit after tax was a $1 million loss (December 2020: $nil million) due to benefits passed to MySuper members in the form of lower administration fees largely in line with the prior comparative period, partially offset by higher funds under administration (FUA) balances.

Suncorp New Zealand achieved a profit after tax of $81 million for the half-year ended 31 December 2021 (December 2020: $120 million). This comprises a profit after tax of $75 million (December 2020: $93 million) from the New Zealand general insurance business and a profit after tax of $6 million (December 2020: $27 million) from the New Zealand life insurance business.

GWP grew by 16.6% to $1,004 million (December 2020: $861 million) driven by a combination of unit growth and targeted pricing increases to offset inflationary pressures on claims. Despite strong top line growth, the New Zealand general insurance business profit after tax was impacted by elevated natural hazard experience and adverse investment markets.

Net incurred claims increased by 20.1% to $472 million (December 2020: $393 million), driven by unit growth and several large commercial claims, partially offset by COVID-19 related reduction in motor claims frequency. The loss ratio was 57.7% (December 2020: 54.4%).

Net investment income decreased to a loss of $6 million (December 2020: $13 million), impacted by rising bond yields leading to mark-to-market losses in fixed interest investment holdings.

The profit after tax from New Zealand life insurance business was driven by growth in planned profit margins and favourable lapse experience offset by adverse claims experience, increased implementation costs relating to the new IFRS 17 *Insurance Contracts* accounting standard and significant adverse market adjustment impacts from interest rate movements. In-force premium grew by 4.2%, supported by consumer price index and age-related premium growth.

4. Events subsequent to reporting date

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 5 and forms part of the Directors' report for the half-year ended 31 December 2021.

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 statements have been rounded to the nearest one million dollars unless otherwise stated.

Signed in accordance with a resolution of the directors.

CHRISTINE MCLOUGHLIN, AM

Chairman
8 February 2022

STEVE JOHNSTON

Group Chief Executive Officer and Managing Director
8 February 2022

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 2021 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

8 February 2022

Consolidated interim statement of comprehensive income

For the half-year ended 31 December 2021

	Note	Dec 2021 $M	Dec 2020 $M
Revenue			
Insurance premium income		5,539	5,173
Reinsurance and other recoveries income		430	598
Interest income on financial assets not at fair value through profit or loss		778	889
Interest income on financial assets at fair value through profit or loss		159	168
Net gains on financial assets and liabilities at fair value through profit or loss		-	258
Dividend and trust distribution income		49	27
Fees and other income		279	239
Total revenue		7,234	7,352
Expenses			
Claims expense		(3,877)	(3,902)
Outwards reinsurance premium expense		(628)	(620)
Underwriting expenses		(1,218)	(1,104)
Interest expense on financial liabilities not at fair value through profit or loss		(186)	(291)
Interest expense on financial liabilities at fair value through profit or loss		(2)	(14)
Net losses on financial assets and liabilities at fair value through profit or loss		(146)	-
Impairment release (loss) on loans and advances	6.2	16	(8)
Impairment loss on goodwill and other intangible assets		-	(9)
Amortisation and depreciation expense		(99)	(115)
Fees, overheads and other expenses		(463)	(470)
Outside beneficial interests in managed funds		(58)	(93)
Total expenses		(6,661)	(6,626)
Profit before income tax		573	726
Income tax expense		(172)	(226)
Profit for the period		401	500
Profit for the period attributable to:			
Owners of the Company		388	490
Non-controlling interests		13	10
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges		(21)	4
Net change in debt investments at fair value through other comprehensive income		(21)	33
Exchange differences on translation of foreign operations		10	4
Related income tax benefit (expense)		12	(11)
Items that will not be reclassified subsequently to profit or loss			
Net change in equity investments at fair value through other comprehensive income		(2)	-
Total other comprehensive income for the period		(22)	30
Total comprehensive income for the period		379	530
Total comprehensive income for the period attributable to:			
Owners of the Company		366	520
Non-controlling interests		13	10
Earnings per share		Cents	Cents
Basic earnings per share		30.53	38.39
Diluted earnings per share		28.91	36.30

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 2021

	Note	Dec 2021 $M	Jun 2021 $M
Assets			
Cash and cash equivalents		1,025	1,200
Receivables due from other banks		4,004	1,495
Trading securities		2,144	1,579
Derivatives		342	351
Investment securities		20,258	21,230
Premiums outstanding		2,879	2,923
Loans and advances	5	58,394	57,324
Reinsurance and other recoveries		1,898	1,997
Deferred reinsurance assets		577	918
Deferred acquisition costs		774	752
Property, plant and equipment		558	504
Deferred tax assets		322	288
Goodwill and other intangible assets		5,267	5,255
Other assets		1,010	1,041
Total assets		99,452	96,857
Liabilities			
Payables due to other banks		115	103
Deposits	7	44,392	41,200
Derivatives		306	332
Amounts due to reinsurers		279	802
Payables and other liabilities		1,418	1,600
Current tax liabilities		44	189
Unearned premium liabilities		5,716	5,568
Provisions and employee benefit liabilities		457	597
Outstanding claims liabilities	4	10,985	10,788
Deferred tax liabilities		129	121
Managed funds units on issue		399	987
Borrowings	11	19,537	18,746
Loan capital	11	2,706	2,376
Total liabilities		86,483	83,409
Net assets		12,969	13,448
Equity			
Share capital	9	12,314	12,558
Reserves		187	204
Retained profits		431	662
Total equity attributable to owners of the Company		12,932	13,424
Non-controlling interests		37	24
Total equity		12,969	13,448

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 2021

	Note	Equity attributable to owners of the Company					
		Share capital $M	Reserves $M	Retained profits $M	Total $M	Non-controlling interests $M	Total equity $M
Balance as at 1 July 2020		12,509	172	82	12,763	21	12,784
Profit for the period		-	-	490	490	10	500
Total other comprehensive income for the period		-	30	-	30	-	30
Total comprehensive income for the period		-	30	490	520	10	530
Transactions with owners, recorded directly in equity							
Dividends paid	10	-	-	(128)	(128)	(7)	(135)
Shares issued	9	9	-	-	9	-	9
Treasury share movements	9	6	-	-	6	-	6
Transfers		-	7	(7)	-	-	-
Other movements		-	-	4	4	-	4
Balance as at 31 December 2020		12,524	209	441	13,174	24	13,198
Balance as at 1 July 2021		12,558	204	662	13,424	24	13,448
Profit for the period		-	-	388	388	13	401
Total other comprehensive income for the period		-	(22)	-	(22)	-	(22)
Total comprehensive income for the period		-	(22)	388	366	13	379
Transactions with owners, recorded directly in equity							
Dividends paid	10	-	-	(615)	(615)	-	(615)
On market buy-back	9	(250)	-	-	(250)	-	(250)
Share-based payments	9	(6)	-	-	(6)	-	(6)
Treasury share movements	9	12	-	-	12	-	12
Transfers		-	5	(5)	-	-	-
Other movements		-	-	1	1	-	1
Balance as at 31 December 2021		12,314	187	431	12,932	37	12,969

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 2021

	Note	Dec 2021 $M	Dec 2020 $M
Cash flows from operating activities			
Premiums received		6,363	5,980
Claims paid		(4,091)	(4,002)
Interest received		920	1,068
Interest paid		(180)	(353)
Reinsurance and other recoveries received		573	1,094
Outwards reinsurance premiums paid		(859)	(789)
Fees and other operating income received		473	254
Dividends and trust distributions received		49	27
Fees and operating expenses paid		(2,327)	(2,009)
Income tax paid		(343)	(289)
Net movement in operating assets			
Trading securities		(568)	89
Loans and advances		(1,044)	683
Net movement in operating liabilities			
Deposits		3,192	1,487
Net cash from operating activities		2,158	3,240
Cash flows from investing activities			
Proceeds from the sale or maturity of investment securities		11,857	14,103
Payments for acquisition of investment securities		(11,132)	(14,629)
Proceeds from other investing activities		50	86
Payments for other investing activities		(716)	(18)
Net cash from (used in) investing activities		59	(458)
Cash flows from financing activities			
On market buy-back, including transaction costs	9	(250)	-
Proceeds from borrowings	11	6,800	7,294
Repayment of borrowings, including transaction costs	11	(6,117)	(8,873)
Proceeds from issue of loan capital	11	405	250
Payment on call of loan capital, including transaction costs	11	(79)	(227)
Payments for other financing activities		(40)	(50)
Dividends paid		(615)	(119)
Net cash from (used in) financing activities		104	(1,725)
Net increase in cash and cash equivalents		2,321	1,057
Cash and cash equivalents at the beginning of the period		2,592	1,320
Effect of exchange rate fluctuations on cash held		1	1
Cash and cash equivalents at the end of the period		4,914	2,378
Cash and cash equivalents at the end of the period comprises:			
Cash and cash equivalents		1,025	1,234
Receivables due from other banks		4,004	1,212
Payables due to other banks		(115)	(68)
		4,914	2,378

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 2021

Overview

Suncorp Group Limited (SGL, the **Company**) is listed on the Australian Securities Exchange (**ASX**) and is a for-profit entity. The Company and its subsidiaries (referred to as the "**Group**" or "**Suncorp**") offer insurance, banking and wealth products and services through some of Australia's and New Zealand's most recognisable brands.

Sale of businesses

On 28 April 2021, Suncorp announced it had entered into an agreement for the sale of its Australian Wealth business, Suncorp Portfolio Services Limited (**SPSL**), to LGIAsuper. The sale is expected to be completed during the financial year ended 30 June 2022, subject to regulatory approvals. Total estimated consideration is $45 million. This includes a fixed amount of $26.6 million, plus regulatory capital. The consideration is subject to standard completion adjustments. After allowing for separation and transaction costs, the impact of the transaction on the Group's profit is not expected to be material.

Following completion of the sale, Suncorp will enter into an agreement with LGIAsuper to distribute Suncorp superannuation products to Suncorp customers for 18 months.

Completion of the sale of Suncorp Group's 50% Joint Venture (**JV**) interest in RACT Insurance Pty Ltd (**RACTI**) to its JV partner, the Royal Automobile Club of Tasmania Ltd (**RACT**) occurred on 30 November 2021. As announced to the market on 1 December 2021, the sale was for a cash consideration of $83.75 million and the pre-tax profit on sale was $65 million, with the total capital release of the transaction being $55 million. As RACTI did not constitute a major line of the Group's business, it was not classified as a discontinued operation.

1. Reporting entity

The Company is a public company domiciled in Australia. Its registered office is at Level 23, 80 Ann Street, Brisbane, Qld, 4000. The consolidated interim financial statements for the half-year ended 31 December 2021 comprise the Company and its subsidiaries and were authorised for issue by the Board of Directors (the **Board**) on 8 February 2022.

2. Basis of preparation

The consolidated interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial statements do 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 2021 and any public announcements made by the Suncorp Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules. The consolidated financial report of the Suncorp Group for the financial year ended 30 June 2021 is available upon request from the Company's registered office or at suncorpgroup.com.au/investors/reports.

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.

2.1 Use of estimates and judgements

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

The significant judgements 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 2021.

COVID-19 impact on the use of estimates and assumptions

Given the ongoing economic uncertainties from COVID-19, the Group has continued to monitor its financial reporting procedures and governance practices consistent with those applied in the preparation of the consolidated financial report for the financial year ended 30 June 2021.

While the effects of COVID-19 do not change the areas requiring significant estimation and judgement in the preparation of financial statements, it has resulted in estimation uncertainty and application of further judgement within those identified areas. Consistent with the year end, the most significant areas impacted by COVID-19 are the measurement of outstanding claims liabilities arising from business interruption and the provision for impairment on financial assets.

General insurance outstanding claims liabilities

The Group has considered the impact from COVID-19 in its assumptions for measuring outstanding claims liabilities and assets arising from reinsurance contracts, including the potential claims impact of business interruption. Potential claims impacts arising from business interruption remain uncertain. At 31 December 2021 the outstanding claims liability includes additional claims provisions and risk margins of $185 million (30 June 2021: $211 million) relating to business interruption. The outstanding claims liability continues to include a risk margin to achieve a probability of adequacy of 90% for the Group overall.

The provision for additional claims has been calculated on a probability-weighted basis and significant judgement has been exercised by management to derive a reasonable estimate of the probability-weighted view of potential future cash flows relating to business interruption. Key areas of judgement relate to ongoing legal risk (refer to note 14.2), including appeals of the second industry test case which affect the ultimate number of claims (i.e. whether insuring clauses should be triggered) and the estimation of potential economic loss (i.e. whether Government subsidies such as JobKeeper should be included as an offset in any loss assessment).

Since 30 June 2021, COVID-19 lockdown restrictions have been lifted across a number of states. The level of exposure to policies with Quarantine Act exemptions has continued to reduce as all business interruption policies now renew with updated wordings to reflect the Biosecurity Act.

Recent supply chain disruptions due to the latest Omicron variant have impacted many businesses and may increase some claim payments. For example, hire car costs have increased due to delays in procuring parts, as replacement cars are needed for longer. Allowances have been made in the recent loss ratio selections for potential increases due to the disruptions to supply chains.

Provision for impairment on financial assets

The provision for impairment on financial assets is considered to be a significant accounting estimate and judgement as forecast macroeconomic conditions are a key factor in determining the expected credit loss (ECL) for loans and advances. The COVID-19 pandemic and the associated prevention measures continue to have a profound impact on the Australian and global economy. Notwithstanding these impacts, key economic indicators such as residential property prices and unemployment have improved since the onset of the pandemic. The latest COVID-19 variant Omicron has not resulted in severe lock downs and curtailment of economic activity to the extent recorded from previous variants to date, however, the situation continues to rapidly evolve. With increased uptake of vaccines in Australia, any slowdown of economic activity is expected to be transitory, caused by emerging issues relating to pressure on healthcare and reduced staff numbers across various industries leading to operational impacts and supply chain pressures. Refer to note 6.3 for ECL model methodology, estimates and assumptions.

Financial performance

3. Segment reporting

Operating segments are identified based on separate financial information which is regularly reviewed by the Group's Chief Operating Decision Maker (**CODM**), represented by the Group CEO and Managing Director (**Group CEO and MD**) and his Executive Leadership Team (**ELT**), in assessing performance and determining the allocation of resources.

3.1 Operating segments

The Suncorp Group comprises the following operating segments.

Reportable segments	Segment information
Insurance (Australia)	– 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 and compulsory third party.
Banking & Wealth	– Design, manufacture and delivery of banking, superannuation and fund administration services to customers in Australia. – Key products include commercial, agribusiness, small business, home 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 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 2021.

	Insurance (Australia) $M	Banking & Wealth $M	Suncorp New Zealand $M	Corporate $M	Total $M
Half-year ended 31 December 2021					
External revenue	5,072	897	1,188	69	7,226
Inter-segment revenue	7	-	(2)	-	5
Total segment revenue	5,079	897	1,186	69	7,231
Segment profit before income tax	160	285	112	16	573
Segment income tax expense	(46)	(85)	(31)	(10)	(172)
Segment profit after income tax	114	200	81	6	401
Other segment disclosures					
Goodwill	4,187	254	285	-	4,726
Half-year ended 31 December 2020					
External revenue	5,183	1,018	1,048	7	7,256
Inter-segment revenue	6	-	3	-	9
Total segment revenue	5,189	1,018	1,051	7	7,265
Segment profit (loss) before income tax	366	271	168	(79)	726
Segment income tax (expense) benefit	(108)	(81)	(48)	11	(226)
Segment profit (loss) after income tax	258	190	120	(68)	500
Other segment disclosures					
Goodwill	4,187	254	283	-	4,724

3.2 Reconciliation of reportable segment revenues and profit before income tax

	Dec 2021	Dec 2020	Dec 2021	Dec 2020
	Revenue $M	$M	Profit before income tax $M	$M
Segment total	7,231	7,265	573	726
Consolidation adjustments relating to intra-group investment income	58	93	-	-
Other consolidation eliminations	(55)	(6)	-	-
Consolidated total	7,234	7,352	573	726

Insurance activities

4. Outstanding claims liabilities

	Dec 2021 $M	Jun 2021 $M
General insurance contracts		
Gross central estimate – undiscounted	9,538	9,320
Risk margin	1,241	1,192
Claims handling expenses	409	389
	11,188	10,901
Discount to present value	(376)	(274)
Gross outstanding claims liabilities relating to general insurance contracts – discounted	10,812	10,627
Gross outstanding claims liabilities relating to life insurance contracts – discounted	173	161
Total gross outstanding claims liabilities – discounted	10,985	10,788
	%	%
General insurance contracts		
Overall net risk margin applied	15.0	15.1
Probability of adequacy of the risk margin (approximately)	90	90

The Group has considered the impact from COVID-19 in its assumptions for measuring outstanding claims liabilities, including the potential claims impact of business interruption (refer to note 2.1).

Banking activities

5. Loans and advances

	Note	Dec 2021 $M	Jun 2021 $M
Retail loans			
Housing loans		43,206	41,697
Securitised housing loans and covered bonds		4,086	4,374
Consumer loans		93	122
		47,385	46,193
Business loans			
Commercial		4,406	4,404
SME		2,716	2,738
Agribusiness		4,106	4,228
		11,228	11,370
Gross loans and advances		58,613	57,563
Provision for impairment	6.1	(219)	(239)
Net loans and advances		58,394	57,324

6. Provision for impairment on financial assets

6.1 Reconciliation of provision for impairment on financial assets

The table below shows the reconciliation of the ECL, specific provision (SP) and gross carrying amount for loans and advances (GLA) for the half-year ended 31 December 2021.

	Collective provision									
	Stage 1		Stage 2		Stage 3		Stage 3 SP		Total	
	GLA $M	ECL $M	GLA $M	ECL $M	GLA $M	ECL $M	GLA $M	SP $M	GLA $M	Provision $M
As at 1 July 2021	55,066	93	1,654	50	712	52	131	44	57,563	239
Transfers:										
Transfer to stage 1	410	6	(368)	(5)	(42)	(1)	-	-	-	-
Transfer to stage 2	(994)	(32)	1,148	35	(154)	(3)	-	-	-	-
Transfer to stage 3	(123)	(14)	(80)	(3)	165	7	38	10	-	-
New loans and advances originated	14,538	90	-	-	-	-	-	-	14,538	90
Net increase (release) of ECL/SP	-	(2)	-	11	-	(3)	-	(12)	-	(6)
Loans and advances derecognised	(12,437)	(55)	(801)	(30)	(195)	(16)	(55)	-	(13,488)	(101)
SP written-off	-	-	-	-	-	-	-	(2)	-	(2)
Unwind of discount	-	-	-	-	-	-	-	(1)	-	(1)
As at 31 December 2021	56,460	86	1,553	58	486	36	114	39	58,613	219
Provision for impairment on:										
Loans and advances	(73)		(51)		(36)		(39)		(199)	
Commitments & guarantees	(13)		(7)		-		-		(20)	
Net carrying amount as at 31 December 2021	56,374		1,495		450		75		58,394	

6.2 Impairment loss on financial assets

	Half-year to		
	Dec 2021 $M	Jun 2021 $M	Dec 2020 $M
Decrease in collective provision for impairment	(15)	(60)	-
(Decrease) increase in SP for impairment	(2)	3	7
Bad debts written off	1	-	2
Bad debts recovered	-	-	(1)
Total impairment (release) loss on loans and advances	(16)	(57)	8

6.3 Expected credit loss model methodology, estimates and assumptions

Reported expected credit loss

The Group calculates the ECL by considering a distribution of economic outcomes around a central underlying scenario, with the central scenario set considering the Group's view of the most likely economic scenario, as well as more adverse outcomes.

As the negative impact of an economic downturn on credit losses tends to be greater than the positive impact of an economic upturn, if the Group determines collective provision only on the ECL under the central forecast, or based on a limited number of discrete scenarios, it might maintain a level of collective provision that does not appropriately reflect the range of potential outcomes, including more severe downside events. To address this, AASB 9 *Financial Instruments* (AASB 9) requires the ECL to be the probability weighted ECL outcome calculated for a range of possible outcomes.

In determining the Reported ECL of $180 million as at 31 December 2021, a distribution of outcomes around the central economic scenario is adopted for both probability of default (PD) and loss given default (LGD), taking into consideration observed variability in economic outcomes and collateral values. The macroeconomic outlook, as reflected in the central scenario, has improved since the outset of COVID-19. However, considerable uncertainty and potential for further downside risk remains, as outlined above.

Accordingly, the PD and LGD distributions around the central estimate incorporate an increased weighting to downside outcomes. For example, for LGD, the ECL reflects a 10 per cent probability that Queensland metro residential property prices fall in excess of 22.2 per cent over the next year. Similarly, the ECL calculation reflects a 10 per cent probability that national commercial property prices fall in excess of 30.3 per cent over the next year.

The central scenario incorporates a weighting of key macroeconomic information from three distinct views being Base, Downside and Severe Downside. The central scenario does reflect potential for worse outcomes than may be indicated by recent data points which indicate a more positive outlook. The views are described below:

- Base view reflects the assumptions used by the Group for business planning and forecasting.
- Downside view reflects a moderate shift to the downside in the short term in comparison to the base view. In the longer term the annual change is more aligned to the base view.
- Severe Downside view reflects a significant deterioration in the economic outlook.

The key macroeconomic information for the central scenario view is presented below:

	Actual	Central (weighted view)		
	FY21	FY22	FY23	FY24
Property prices - residential - annual change (%)	16.8	1.1	(1.9)	0.8
Property prices - commercial - annual change (%)	2.7	(6.2)	0.3	4.1
Unemployment rate (%)	4.8	5.9	4.3	4.0

Downside sensitivity expected credit loss

The ECL calculation relies on multiple variables and is inherently non-linear and portfolio-dependent, signifying no single analysis can fully demonstrate the sensitivity of the ECL to fluctuations in macroeconomic variables. As a result of economic uncertainty and the sensitivity to key macroeconomic variables, significant adjustments to the ECL could occur in future periods. To provide an indication of the impact of changes in key macroeconomic variables, a sensitivity analysis is conducted on the following key macroeconomic drivers as the ECL is most sensitive to these inputs:

- residential and commercial property prices,
- the unemployment rate, and
- a combination of simultaneous adverse movements in both the property prices and the unemployment rate as this highlights how the variables would interact in a downside scenario.

The table below describes how each of the three aforementioned drivers will impact the profit (loss) before tax with a corresponding impact on the ECL at reporting date.

	Downside sensitivity	
	Movement in variable relative to central case	Pre-tax impact Profit (loss) $M
Movement of variables in isolation		
Property prices - residential	Decrease ~400 bps over 2 years	(8)
Property prices - commercial	Decrease ~400 bps over 2 years	(11)
Unemployment rate	Increase 100 bps	(26)
Movement of variables in combination		
Property prices - residential and commercial, and unemployment rate all move simultaneously	Adverse movements as above	(45)

7. Deposits

	Dec 2021 $M	Jun 2021 $M
At-call transactions deposits	19,079	16,928
At-call savings deposits	16,949	16,180
Term deposits	8,364	8,092
Total deposits	44,392	41,200

Other investment and financial instruments

8. 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 and property related 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 2021				Jun 2021			
	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	39	2,105	-	2,144	-	1,579	-	1,579
Fair value through profit or loss[1]	3,509	11,885	170	15,564	4,737	11,690	247	16,674
Fair value through other comprehensive income[1]	510	4,168	16	4,694	-	4,538	18	4,556
Derivatives	6	336	-	342	1	350	-	351
	4,064	18,494	186	22,744	4,738	18,157	265	23,160
Financial liabilities								
Short-term offshore commercial paper[2]	-	1,744	-	1,744	-	1,763	-	1,763
Derivatives	4	302	-	306	6	326	-	332
Managed funds units on issue[3]	-	399	-	399	-	987	-	987
	4	2,445	-	2,449	6	3,076	-	3,082

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

2 Designated as financial liabilities at fair value through profit or loss. Disclosed within the consolidated interim statement of financial position category of 'Borrowings'.

3 Decrease in managed funds units on issue relates to divestment of investments held in Global Equities and Liquid Cash Trusts.

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 investment in unlisted equity securities of $16 million (30 June 2021: $18 million) and investments in infrastructure assets and property related assets of $168 million (30 June 2021: $245 million). The Group's exposure to fair value measurements based on unobservable inputs is insignificant. As such, a change in the assumption used to value the instruments as at 31 December 2021 attributable to reasonably possible alternatives would not have a material impact on the Group.

During the half-year, no additional units of infrastructure or property related assets were purchased (2020: $nil million) while infrastructure assets were redeemed for $85 million (2020: $49 million). Fair value gain of $9 million (2020: $12 million loss) was recognised through 'Net gains (losses) on financial assets and liabilities at fair value through profit or loss'.

Financial assets and liabilities not measured at fair value

The following table 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 2021.

		Carrying	Fair value			
	Note	value $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 31 December 2021						
Financial assets						
Loans and advances	5	58,394	-	-	58,325	58,325
		58,394	-	-	58,325	58,325
Financial liabilities						
Deposits	7	44,392	-	44,385	-	44,385
Borrowings		17,793	-	17,923	-	17,923
Loan capital	11	2,706	1,585	1,210	-	2,795
		64,891	1,585	63,518	-	65,103
As at 30 June 2021						
Financial assets						
Loans and advances	5	57,324	-	-	57,341	57,341
		57,324	-	-	57,341	57,341
Financial liabilities						
Deposits	7	41,200	-	41,226	-	41,226
Borrowings		16,983	-	17,187	-	17,187
Loan capital	11	2,376	1,169	1,286	-	2,455
		60,559	1,169	59,699	-	60,868

Capital structure

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 2020	1,279,650,338	12,539	21	(51)	12,509
Shares issued	951,084	9	-	-	9
Treasury share movements	-	-	-	6	6
Balance as at 31 December 2020	1,280,601,422	12,548	21	(45)	12,524
Shares issued	2,365,253	23	-	-	23
Share-based payments	-	-	7	-	7
Treasury share movements	-	-	-	4	4
Balance as at 30 June 2021	1,282,966,675	12,571	28	(41)	12,558
On market buy-back	(20,361,699)	(250)	-	-	(250)
Share-based payments	-	-	(6)	-	(6)
Treasury share movements	-	-	-	12	12
Balance as at 31 December 2021	1,262,604,976	12,321	22	(29)	12,314

On market buy-back

On 10 November 2021, the Company completed its ordinary share on market buy-back for a consideration of $250 million (including transaction costs). 20,361,699 shares (representing 1.59% of the Company's issued share capital) were bought back at an average price of $12.26 per share. This resulted in 20.4 million shares being cancelled for the half-year ended 31 December 2021.

10. Dividends

	Dec 2021		Dec 2020	
	Cents per share	$M	Cents per share	$M
Dividend payments on ordinary shares				
2021 final dividend (December 2020: 2020 final dividend)	40	513	10	128
2021 special dividend (December 2020: 2020 special dividend)	8	103	-	-
Dividends paid on treasury shares		(1)		-
Total dividends on ordinary shares paid to owners of the Company	48	615	10	128
Dividends not recognised in the consolidated interim statement of financial position[1]				
Dividends determined since balance date				
2022 interim dividend (December 2020: 2021 interim dividend)	23	290	26	333

1 The total 2022 interim dividend on ordinary shares determined but not recognised in the consolidated interim statement of financial position is estimated based on the total number of ordinary shares on issue without taking into account treasury shares as at 31 December 2021. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2022 will be based on the actual number of ordinary shares on issue net of treasury shares on the record date.

Other disclosures

11. Issues and repayments of debt securities

	Borrowings $M	Loan capital $M
Balance as at 1 July 2020	20,129	2,349
Cash flows		
Proceeds	7,294	250
Repayments	(8,873)	(225)
Transaction costs	-	(2)
Non-cash changes	(389)	2
Balance as at 31 December 2020	18,161	2,374
Cash flows		
Proceeds	2,209	-
Repayments	(1,794)	-
Transaction costs	(2)	(2)
Non-cash changes	172	4
Balance as at 30 June 2021	18,746	2,376
Cash flows		
Proceeds	6,800	405
Repayments	(6,115)	(72)
Transaction costs	(2)	(7)
Non-cash changes	108	4
Balance as at 31 December 2021	19,537	2,706

On 23 September 2021, the Company issued $405 million of Capital Notes for $100 per note. They are fully paid, perpetual, unsecured and subordinated notes. The Company has an option to exchange all or some of the notes on 17 June 2028, 17 September 2028 or 15 December 2028, subject to approval by Australian Prudential Regulation Authority (APRA), or the notes will otherwise mandatorily convert into ordinary shares on 17 December 2030. 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.

The Group redeemed $72 million of Basel III transitional subordinated notes on the early redemption date of 28 July 2021. Each note holder received the face value ($100 per note) together with all unpaid accrued interest. No gain or loss was recorded for the Group on redemption as the Basel III transitional subordinated notes were carried at amortised cost.

Capital notes and Subordinated notes are disclosed within the consolidated interim statement of financial position category of "Loan capital".

12. Share-based payments

The following awards are made under the Suncorp Group Equity Incentive Plan:

Long-term incentive (LTI) awards:

- Performance rights are granted to the Group CEO and MD, ELT and other eligible employees as part of their remuneration package. During the half-year ended 31 December 2021, 803,668 (December 2020: 909,691) performance rights were offered at a total fair value of $6,740,000 (December 2020: $3,736,000). Total LTI performance rights expensed for the half-year ended 31 December 2021 is $2,264,000 (December 2020: $1,680,000).
- Share Rights are granted to eligible employees in senior roles below executive level and other eligible employees as part of their remuneration package. During the half-year ended 31 December 2021, 211,471 (December 2020: 462,570) share rights were offered at a total fair value of $2,535,000 (December 2020: $4,222,000). Total LTI share rights expensed for the half-year ended 31 December 2021 is $1,176,000 (December 2020: $1,485,000).

Deferred Short-Term Incentive (STI) awards:

- Share rights are offered to the Group CEO and MD, ELT and Executive General Managers as the deferred component of their total STI award. On 11 August 2021, 666,914 (December 2020: 399,497) share rights were offered at a total fair value of $8,536,000 (December 2020: $3,456,000). Total STI deferred into share rights expensed for the half-year ended 31 December 2021 is $3,863,000 (December 2020: $2,317,000).

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

13. 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 2021. There have been no other transactions with related parties that are significant to understanding the changes in financial position and performance of the Group since 30 June 2021.

14. Contingent assets and liabilities

14.1 Contingent assets

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

There are claims and possible claims made by the Group against external parties. Where considered appropriate, privileged legal advice has been obtained. The Group does not consider the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, is likely to have a material effect on its operations or financial position. The Group is of the opinion that receivables are not required in respect of these matters, as the inflow of future economic benefits is probable but not virtually certain.

14.2 Contingent liabilities

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

There are contingent liabilities facing the Group in respect of the matters below.

Regulatory and internal reviews

Reviews and enquiries from regulators may result in investigation costs, administrative costs, legal costs, system changes and compensation and/or remediation payments (including interest) or fines and penalties. The Group conducts its own internal reviews of its regulatory compliance, which it may disclose to the regulators in Australia and New Zealand, which may result in similar costs.

In recent periods, a number of regulators in Australia and New Zealand including Australian Securities and Investments Commission (**ASIC**), APRA, Australian Competition and Consumer Commission (**ACCC**), Australian Transaction Reports and Analysis Centre (**AUSTRAC**) and the Australian Taxation Office (**ATO**) and the Reserve Bank of New Zealand and Financial Markets Authority (**FMA**) in New Zealand conducted reviews and made enquiries with the Group. There were a number of non-compliance instances identified and disclosed by the Group to ASIC, APRA, AUSTRAC and FMA.

The Group is currently subject to ASIC's Institutional Supervision Program. The most recent review related to Internal Dispute Resolution and Breach and Incident Management processes. An action plan is in place to address ASIC's findings. Further reviews under the program are possible in the future.

ASIC has requested all Australian insurers to commission a review to confirm whether all discounts or price rewards the insurer has promised on all retail general insurance products over the past five years have been fully delivered to all relevant customers. The review will be completed by April 2022.

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 and complaints

The Group is currently undertaking a number of programs of work in both Australia and New Zealand to resolve prior issues that in some cases impacted customers. 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 Australian Financial Complaints Authority (**AFCA**) has the power to award compensation within financial limits prescribed by its rules on complaints raised by customers and also investigate matters they consider may be 'systemic'. The Group is working through the individual cases that have been referred to AFCA.

An assessment of the likely cost to the Group of reviews and customer complaints 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 (**Report**) set out 76 policy recommendations. The Government's program in response to the Report continues to evolve. In the period since the Report, a number of actions have been implemented by Government, although in some cases the changes have not yet been fully implemented. The Group has implemented many of the known reforms and continues to monitor and respond to any additional legislation and regulatory activity that may arise.

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 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 (**ADA**). Provisions have been recognised for these matters. With regard to the ADA matter, the APRA investigation has concluded, and a remediation program has been finalised. APRA has indicated that any further enquiries relating to the tax surplus referral will be conducted as part of a broader industry review at a later date. ASIC may also consider the tax surplus. The Group is of the opinion that at this time the total costs which may arise from this referral remains uncertain. It remains uncertain whether any other enquiries or claims may arise following the case studies and observations in the Report.

Litigation

As disclosed in an ASX announcement on 15 April 2021 a class action was filed against AAI Limited and former Suncorp Group entity Suncorp Life & Superannuation Limited (**SLSL**) on behalf of persons who purchased add-on insurance products sold with the purchase or lease of motor vehicles at car dealerships between 1 May 2006 and 30 June 2018. The Group entity MTAI Limited has now been joined as a defendant. The Group is defending this matter. The Group has made provisions for legal, investigation and other defence costs. At this stage of the proceedings it is currently not possible to determine the ultimate financial impact of this matter, if any.

Following the onset of the COVID-19 pandemic, the construction of various business interruption wordings has been tested through litigation including two industry test cases. The first test case considered the validity of policy exclusions that referenced the 'Quarantine Act and subsequent amendments'. The Court determined that insurers could not rely on these exclusions and the matter has now finalised. Overall policy response and assessment of claims arising from these policies cannot yet occur as this is dependent on the construction of other clauses that are being considered in the second test case. The second test case is considering whether the insuring clauses for these policies respond, including the construction of Infectious Diseases, Prevention of Access, and adjustments clauses. The Federal Court in summary held that policies are not triggered and that government subsidies are to be taken into account when adjusting claims. This judgement is currently the subject of an appeal before the Full Federal Court. There is a further possibility that any Full Court decision may be appealed to the High Court. Other industry participants have discrete litigation and/or class actions on foot considering their business interruption wordings and other aspects of their response to these issues.

Accordingly, there may be additional judicial determinations which may be of broader industry application and impact future exposure for the Group.

The potential impact of these matters is uncertain and has been considered in the recognition of claims provisions and risk margins in the General Insurance outstanding claims liabilities as set out in note 4.

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 charging fees and 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 for all persons whose accounts were alleged to have been affected by the payment of grandfathered conflicted remuneration from 1 July 2013 to 21 June 2019. The Group is defending this matter. The Group has made provisions for estimated legal, investigation and other defence costs. The Group is of the opinion that at this time the outcome and any potential exposures remain uncertain.

There are other outstanding court proceedings, potential fines, enquiries, industry reviews, claims and possible claims against the Group, the aggregate amount of which cannot be readily quantified. Where considered appropriate, privileged legal advice has been obtained. The 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.

Sale of businesses

As part of the sale of SLSL, the Group provided warranties and indemnities to SLSL and TAL Dai-ichi Life Australia Pty Ltd (TAL). These included warranties, indemnities and remediation obligations in regard to the provision of services and products in accordance with terms and conditions of the contractual arrangements. As disclosed in the 30 June 2021 financial report, TAL has lodged a reinsurance warranty claim and a project team was set up to assess this. On 8 December 2021, the claim was withdrawn by TAL and a Deed of Release was subsequently executed in January 2022.

As part of the sale of Capital S.M.A.R.T and ACM Parts, the Group provided warranties in the respective Share Sale and Purchase Agreements entered into with AMA. As disclosed in the 30 June 2021 financial report, AMA lodged a warranty claim under the warranty regime and a project team continues to assess this. Whilst provisions have been made where the amounts can be reliably estimated, the outcomes and costs of these warranty claims remain uncertain.

As part of the sale of Resilium, the Group provided certain tax warranties in the Sale and Purchase Agreement entered into with the Resilium management team. Any potential outflows relating to the warranties remain uncertain.

Other

Under the terms of its contracts with New Zealand advisers, the Group would potentially acquire the entitlement of individual advisers to future income streams from renewal commission for business in-force as at 16 April 2021, should the advisers themselves be unable to find an approved buyer within six months of the date that the agreement ends. For in-force business written since 16 April 2021, the entitlement of individual advisers to future income streams from renewal commission if an approved buyer is not found within six months of the date that the agreement ends, is ceded to the Company at no cost. 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.

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.

Some companies in the Group, apart from the Company, also provide financial guarantees to external parties and may be exposed to contingent liabilities

15. New Australian accounting standards

There are several new or revised accounting standards published by the AASB that are either mandatory in the current period or will be mandatory in future financial years. An update on new or revised accounting standard that is expected to have a material impact on the Group is set out below.

AASB 17 *Insurance Contracts*

AASB 17 *Insurance Contracts* (AASB 17) is a new accounting standard for all types of insurance contracts and replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 17 was issued in July 2017 and is effective for Suncorp Group's consolidated financial statements for reporting periods beginning on or after 1 July 2023. The new standard requires the application of new measurement models and introduces significant changes to the presentation and disclosure of insurance contracts.

AASB 17 introduces a general model that measures insurance contracts based on the fulfilment cash flows (present value of estimated future cash flows with a provision for risk) and the contractual service margin (the unearned profit that will be recognised over the coverage period). A modified version of the general model (variable fee approach) is applied to insurance contracts with direct participation features, and a simplified measurement model (premium allocation approach) is permitted in certain circumstances. The premium allocation approach is similar to the current measurement model used for general insurance. Based on the current insurance business, the Suncorp Group expects to be eligible to use the premium allocation approach for all its general insurance contracts and be required to use all measurement models across its life insurance contracts.

The Group has established a project team to assess and implement the requirements of AASB 17. Suncorp continues the technical interpretation of the accounting, reinsurance and actuarial requirements within the standard to determine new accounting policies. Impacts to the technology landscape are significant and will result in new and revised systems and processes.

The AASB 17 requirements are complex and global interpretation of these requirements is evolving. APRA has released draft prudential and reporting standards for consultation which incorporate proposed changes to capital and reporting requirements, and a further Quantitative Impact Study to inform the development of the final prudential and reporting standards. The Reserve Bank of New Zealand (RBNZ) has commenced a multi-year review of the *Insurance Prudential Supervision Act 2010* and its associated Insurer Solvency Standards. The RBNZ has released an Interim Solvency Standard which includes changes related to the implementation of the New Zealand equivalent of AASB 17. The Group continues to closely monitor all these developments and to assess the impacts of the standard on the Group. The financial impact of adopting AASB 17 including consideration of the income tax implications of the standard is not reasonably estimable at the date of this report.

16. 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 6 to 25, 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 2021 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, AM

Chairman
8 February 2022

STEVE JOHNSTON

Group CEO and MD
8 February 2022

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 does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2021 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 2021
- 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
- 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.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities 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. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Consolidated Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 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*.

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.

KPMG

David Kells

Partner

Sydney

8 February 2022

Tanya Gilerman

Partner