SUNCORP GROUP LIMITED AND SUBSIDIARIES

ABN 66 145 290 124

Consolidated interim financial report
For the half-year ended 31 December 2016

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DIRECTORS' REPORT

The directors present their report together with the consolidated interim financial report of the Suncorp Group (the **Suncorp Group**, **Suncorp** or **Group**), being Suncorp Group Limited (the **Company**) and its subsidiaries for the half-year ended 31 December 2016 and the auditor's review report thereon. Terms that are defined appear in bold the first time they are used.

1. Directors

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

Non-executive

Dr Zygmunt E Switkowski AO (Chairman)	Director since 2010
William J Bartlett	Director since 2010
Audette E Exel AO	Director since 2012
Sally A Herman	Director since 2015
Ewoud J Kulk	Director since 2010
Christine F McLoughlin	Director since 2015
Dr Douglas F McTaggart	Director since 2012
Geoffrey T Ricketts CNZM	Retired 22 September 2016

Executive

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

2. Dividends

A fully franked 2016 final dividend of $489 million (38 cents per share) was paid on 21 September 2016. A fully franked 2017 interim dividend of $426 million (33 cents per share) has been determined by the directors.

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

3. Review of operations

3.1. Overview of the Suncorp Group

The Suncorp Group has delivered a net profit after tax attributable to owners of the Company of $537 million for the half-year ended 31 December 2016 (December 2015: $530 million).

Suncorp's three segments (Insurance, Banking & Wealth, and New Zealand) delivered solid underlying performances demonstrating the value of operating a diversified business model with multiple earnings streams.

3.1. Overview of the Suncorp Group (continued)

The Suncorp Group organisational restructure was implemented 1 July 2016. Suncorp Group has refined its strategy to drive growth and increase resilience to volatility. The Group is well capitalised and has a diversified earnings base that provides a strong foundation to create value for customers, shareholders, employees and communities with the 'One Suncorp' business model. By maximising its strategic assets of cost, capital and culture, the Group will create greater value for customers, leading to higher customer retention and revenues.

Key priorities for the Group are to maintain stability and momentum, elevate the customer, and recalibrate costs.

3.2. Financial position and capital structure

Net assets of the Suncorp Group increased to $13,652 million at 31 December 2016 from $13,570 million at 30 June 2016. The increase in net assets of $82 million primarily arises from the total comprehensive income for the half-year, partially offset by the payment of the 2016 final dividend.

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

Capital continued to be managed on a legal entity basis. At 31 December 2016, the General Insurance Common Equity Tier 1 (**CET1**) capital position was 1.23 times the Prescribed Capital Amount (**PCA**) (June 2016: 1.21 times), the Bank's CET1 ratio was 9.20% (June 2016: 9.21%) and the Life CET1 capital position was 2.03 times the PCA (June 2016: 1.80 times). After accounting for the interim dividend payment, the Suncorp Group remains well capitalised with $448 million (June 2016: $346 million) in CET1 capital held above its operating targets.

During the half-year AAI Limited, a subsidiary of the Company, issued $330 million of Tier 2 subordinated notes and redeemed Tier 2 transitional subordinated notes at a face value of $98 million (regulatory capital value of $108 million).

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

3.3. Review of principal businesses

Insurance achieved a net profit after tax of $369 million for the half-year ended 31 December 2016 (December 2015: $259 million).

General Insurance gross written premium (**GWP**) increased by 6.2% to $4,031 million (December 2015: $3,796 million) following the successful entry into the South Australian Compulsory Third Party (**CTP**) market, strong growth in New South Wales (**NSW**) CTP and premium increases in Home and Motor products. The insurance trading result (**ITR**) was $491 million (December 2015: $303 million), representing an insurance trading ratio of 13.8%.

3.3. Review of principal businesses (continued)

The Consumer portfolio (consisting of Home and Motor) achieved GWP growth of 1.9% in a competitive market. The Commercial portfolio was broadly flat with price increases and strong retention in the Small and Medium Enterprises segment offset by lower retention in the corporate segment.

CTP GWP grew 27.3%, supported by successful entry into the South Australian CTP market and growth in NSW CTP that was driven by premium increases, strong organic volume growth and the successful tender of new large business accounts.

Net incurred claims were $2,374 million (December 2015: $2,546 million), down 6.8% due to an increase in discount rates. The loss ratio was 66.8% (December 2015: 73.2%). Reserve releases of $149 million remain well above long-term expectations of 1.5% of net earned premium (**NEP**). This was primarily attributable to a continued focus on management of long-tail claims and a benign environment for wage and super-imposed inflation.

Net investment income has decreased to $70 million (December 2015: $117 million) due to mark-to-market losses from the fixed-income portfolio as bond yields increased. These were partially offset by the relative outperformance of inflation-linked bonds, credit spreads narrowing, and improved returns from equities in shareholders' funds.

In Life Insurance, in-force premium growth was 0.4% with new business volumes subdued across all channels partly due to increased regulatory scrutiny.

Banking & Wealth delivered a net profit after tax of $208 million for the half-year ended 31 December 2016 (December 2015: $207 million). The result was driven by strong risk management and credit quality.

Net interest income decreased 1.4% to $558 million (December 2015: $566 million), due to cumulative impacts from regulatory and economic factors. Challenging market conditions continued due to reductions to the RBA cash rate and sharp industry competition for customer deposits. The impact was partially mitigated through active use of diversified wholesale funding programs. The net interest margin (**NIM**) declined 7 basis points (**bps**) to 1.78% (December 2015: 1.85%) and remains within the target operating range of 1.75% to 1.85%.

Total loans and advances of $54,047 million remained broadly flat (June 2016: $54,134 million), following the Group's decision to refrain from participating in intense market competition during a period of unsustainable deposit and lending pricing across the industry. Business lending continued to grow, increasing by 1.3% over the half-year, supported by a prudent risk appetite and a focus on segment diversification.

The Group continues to benefit from robust credit quality and risk management during the half-year, with impairment losses on loans and advances of $1 million (December 2015: $11 million) representing less than 1 bps (annualised) of gross loans and advances.

The Bank's deposit-to-loan ratio of 67.2% is within the target operating range of 60% to 70%.

Periods of heightened volatility demonstrate the benefit of access to a range of funding instruments in both domestic and offshore markets. Suncorp-Metway Limited's long-term issuer ratings of 'A+/A1/A+' and well-diversified wholesale funding position create a genuine competitive advantage.

The Wealth business has continued to focus on simplification and leveraging existing product offerings while investing in enhanced technology to create value for customers. The Super Simplification Project has rationalised 21 legacy superannuation and pension products, with 78,000 customers and $3,934 million of assets migrated onto the new administration platform.

3.3. Review of principal businesses (continued)

Superannuation funds under management and administration of $7,490 million (June 2016: $7,452 million) reflects new business of $134 million (June 2016: $172 million). New business volumes have been adversely impacted by the disruption to Suncorp's advised distribution (specifically, the closure of Guardian Financial and part of Suncorp Financial Services). Over the medium term, Wealth will continue to embed the recently launched Brighter Super offer providing a diversified proposition for a broader market segment.

Suncorp New Zealand achieved a profit after tax of $36 million for the half-year ended 31 December 2016 (December 2015: $78 million).

General Insurance profit after tax was $19 million (December 2015: $61 million), significantly impacted by the November 2016 Kaikoura earthquake and the notification of new 2010/11 Canterbury earthquake 'over cap' claims. The ITR was $21 million (December 2015: $74 million) representing an insurance trading ratio of 3.8%.

GWP grew by 9.3% to $679 million (December 2015: $621 million) driven by strong growth in Home and Motor products through all channels. Growth in Commercial lines was flat, constrained by a highly competitive market characterised by unsustainable premium discounting.

Net incurred claims were $354 million (December 2015: $276 million), up 28.3%, driven by the Kaikoura earthquake as well as several large commercial claims and strong unit growth in the consumer portfolios. The loss ratio was 63.6% (December 2015: 53.9%).

Net investment income has decreased to $9 million (December 2015: $16 million), driven by mark-to-market losses on the fixed-income portfolio as bond yields increased.

Life Insurance in-force growth was 8.1% driven by strong new business growth and retention rates.

4. Events subsequent to reporting date

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

5. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 6 and forms part of the Directors' report for the half-year ended 31 December 2016.

6. Rounding of amounts

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

Signed in accordance with a resolution of the directors.

DR ZIGGY SWITKOWSKI AO

Chairman of the Board

MICHAEL CAMERON

CEO & Managing Director

9 February 2017

LEAD AUDITOR'S INDEPENDENCE DECLARATION

KPMG

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 for the half-year ended 31 December 2016 there have been:

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

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

KPMG

Chris Hall
Partner
Sydney

9 February 2017

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2016

	Note	Dec 2016 $M	Dec 2015 $M
Revenue			
Insurance premium income		5,173	4,962
Reinsurance and other recoveries income		1,591	792
Interest income on			
financial assets not at fair value through profit or loss		1,247	1,324
financial assets at fair value through profit or loss		289	298
Dividend and trust distribution income		55	121
Fees and other income		283	300
Total revenue		8,638	7,797
Expenses			
Claims expense and movement in policyowner liabilities		(4,489)	(3,824)
Outwards reinsurance premium expense		(694)	(589)
Underwriting and policy maintenance expenses		(1,222)	(1,195)
Interest expense on			
financial liabilities not at fair value through profit or loss		(707)	(756)
financial liabilities at fair value through profit or loss		(35)	(48)
Net losses on financial assets and liabilities at fair value through profit or loss		(65)	(133)
Impairment loss on loans and advances	6.2	(1)	(11)
Amortisation and depreciation expense		(75)	(71)
Fees, overheads and other expenses		(445)	(403)
Outside beneficial interests in managed funds		(93)	(8)
Total expenses		(7,826)	(7,038)
Profit before income tax		812	759
Income tax expense		(270)	(226)
Profit for the period		542	533
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges		(36)	21
Net change in fair value of available-for-sale financial assets		7	(3)
Exchange differences on translation of foreign operations		7	56
Income tax benefit (expense)		10	(6)
Total other comprehensive income		(12)	68
Total comprehensive income for the period		530	601
Profit for the period attributable to:			
Owners of the Company		537	530
Non-controlling interests		5	3
Profit for the period		542	533
Total comprehensive income for the period attributable to:			
Owners of the Company		525	598
Non-controlling interests		5	3
Total comprehensive income for the period		530	601
Earnings per share		Cents	Cents
Basic earnings per share		41.93	41.45
Diluted earnings per share		41.13	40.56

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 2016

	Note	Dec 2016 $M	Jun 2016 $M
Assets			
Cash and cash equivalents		1,870	1,798
Receivables due from other banks		473	552
Trading securities		1,597	1,497
Derivatives		696	676
Investment securities		23,984	23,384
Loans and advances	5	54,047	54,134
Premiums outstanding		2,428	2,522
Reinsurance and other recoveries		2,630	1,900
Deferred reinsurance assets		644	858
Deferred acquisition costs		691	678
Gross policy liabilities ceded under reinsurance		408	461
Property, plant and equipment		200	183
Deferred tax assets		228	205
Goodwill and other intangible assets		5,836	5,878
Other assets		1,069	1,022
Total assets		96,801	95,748
Liabilities			
Payables due to other banks		512	332
Deposits and short-term borrowings	7	46,048	44,889
Derivatives		508	628
Amounts due to reinsurers		360	745
Payables and other liabilities		1,559	1,843
Current tax liabilities		99	65
Unearned premium liabilities		4,925	4,870
Outstanding claims liabilities		10,234	9,734
Gross policy liabilities		2,843	2,912
Deferred tax liabilities		118	110
Managed funds units on issue		1,601	1,334
Securitisation liabilities	8	2,204	2,535
Debt issues	8	9,585	9,841
Subordinated notes	8	1,600	1,389
Preference shares		953	951
Total liabilities		83,149	82,178
Net assets		13,652	13,570
Equity			
Share capital	9	12,722	12,679
Reserves		186	198
Retained profits		734	684
Total equity attributable to owners of the Company		13,642	13,561
Non-controlling interests		10	9
Total equity		13,652	13,570

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 2016

		Equity attributable to owners of the Company					
	Note	Share capital $M	Reserves $M	Retained profits $M	Total $M	Non-controlling interests $M	Total equity $M
Balance as at 1 July 2016		12,679	198	684	13,561	9	13,570
Profit for the period		-	-	537	537	5	542
Total other comprehensive income for the period		-	(12)	-	(12)	-	(12)
Total comprehensive income for the period		-	(12)	537	525	5	530
Transactions with owners, recorded directly in equity							
Dividends paid	3	-	-	(487)	(487)	(4)	(491)
Shares issued	9	46	-	-	46	-	46
Share-based payments	9	2	-	-	2	-	2
Treasury share movements	9	(5)	-	-	(5)	-	(5)
Balance as at 31 December 2016		12,722	186	734	13,642	10	13,652
Balance as at 1 July 2015		12,684	167	632	13,483	35	13,518
Profit for the period		-	-	530	530	3	533
Total other comprehensive income for the period		-	68	-	68	-	68
Total comprehensive income for the period		-	68	530	598	3	601
Transactions with owners, recorded directly in equity							
Dividends paid	3	-	-	(641)	(641)	(10)	(651)
Share-based payments	9	4	-	(1)	3	-	3
Treasury share movements	9	(13)	-	-	(13)	-	(13)
Movement in non-controlling interests without a change in control		-	-	-	-	(12)	(12)
Transfers		-	(50)	50	-	-	-
Balance as at 31 December 2015		12,675	185	570	13,430	16	13,446

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 2016

	Note	Dec 2016 $M	Dec 2015 $M
Cash flows from operating activities			
Premiums received		5,954	5,715
Claims paid		(4,690)	(4,860)
Interest received		1,541	1,617
Interest paid		(763)	(848)
Reinsurance and other recoveries received		1,169	1,069
Outwards reinsurance premiums paid		(933)	(748)
Fees and other operating income received		298	309
Dividends and trust distributions received		55	121
Fees and operating expenses paid		(2,248)	(1,801)
Income tax paid		(244)	(463)
Net (increase) decrease in operating assets			
Trading securities		(100)	264
Loans and advances		87	(937)
Net increase (decrease) in operating liabilities			
Deposits and short-term borrowings		1,159	(342)
Net cash from (used in) operating activities		1,285	(904)
Cash flows from investing activities			
Net (payments) proceeds from the sale and purchase of investment securities		(581)	1,054
Proceeds from other investing activities		46	4
Payments for other investing activities		(112)	(106)
Net cash (used in) from investing activities		(647)	952
Cash flows from financing activities			
Proceeds from borrowings		1,716	1,611
Repayment of borrowings		(2,314)	(1,246)
Proceeds from issue of subordinated notes		330	225
Payment on call of subordinated notes		(98)	(199)
Payments for other financing activities		(19)	(51)
Dividends paid		(441)	(641)
Net cash (used in) financing activities		(826)	(301)
Net decrease in cash and cash equivalents		(188)	(253)
Cash and cash equivalents at the beginning of the period		2,018	1,514
Effect of exchange rate fluctuations on cash held		1	5
Cash and cash equivalents at the end of the period		1,831	1,266
Cash and cash equivalents at the end of the period comprises:			
Cash and cash equivalents		1,870	1,203
Receivables due from other banks		473	464
Payables due to other banks		(512)	(401)
		1,831	1,266

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 2016

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 2016 comprise the Company and its subsidiaries (the **Suncorp Group, Suncorp** or **Group**) and were authorised for issue by the Board of Directors on 9 February 2017.

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 2016 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 2016 is available upon request from the Company's registered office or at suncorpgroup.com.au.

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

The accounting policies applied by the Suncorp Group in this consolidated interim financial report are the same as those applied by the Suncorp Group in its consolidated financial report for the financial year ended 30 June 2016.

Where necessary, comparatives have been restated to conform to changes in presentation in the current half-year. The Suncorp Group implemented a new operating model from 1 July 2016 resulting in changes to its operating segments. Note 4 to the consolidated interim financial statements contains information on operating segments and comparatives that have been restated to reflect the new basis of segmentation.

2.1 Use of estimates and judgments

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

The significant judgments made by management in applying the Suncorp Group accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial report as at and for the financial year ended 30 June 2016.

3. Dividends

	Dec 2016		Dec 2015	
	Cents per share	$M	Cents per share	$M
Dividend payments on ordinary shares				
2016 final dividend (December 2015: 2015 final dividend)	38	489	38	489
2016 special dividend (December 2015: 2015 special dividend)	-	-	12	154
Dividends paid on treasury shares		(2)		(2)
Total dividends on ordinary shares paid to owners of the Company	38	487	50	641
Dividends not recognised in the consolidated interim statement of financial position[1]				
Dividends determined since balance date				
2017 interim dividend (December 2015: 2016 interim dividend)	33	426	30	386

1 The total 2017 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 as at 31 December 2016. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2017 will be based on the actual number of ordinary shares on issue net of treasury shares on the record date.

4. Segment reporting

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

On 1 July 2016, the Suncorp Group implemented a revised operating model and organisational structure for its Australian and New Zealand operations. This has resulted in changes to the basis upon which the business is managed and accordingly the operating segments and basis of segmentation set out in note 4.1. Comparatives have been restated to reflect this basis. The former operating segments were Personal Insurance, Commercial Insurance, General Insurance New Zealand, Bank, Life and Corporate.

4.1 Operating segments

The Suncorp Group comprises the following operating segments.

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

While profit or loss information is reviewed by the CODM at an operating segment level, assets and liabilities information are reviewed by the CODM at a legal entity 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 2016.

4.1 Operating segments (continued)

	Insurance $M	Banking & Wealth $M	Suncorp New Zealand $M	Corporate $M	Total $M
Half-year ended 31 December 2016					
External revenue	5,464	1,497	1,670	8	8,639
Inter-segment revenue	6	-	28	18	52
Total segment revenue	5,470	1,497	1,698	26	8,691
Segment profit (loss) before income tax	527	305	53	(73)	812
Segment income tax (expense) benefit	(158)	(97)	(17)	2	(270)
Segment profit (loss) after income tax[1]	369	208	36	(71)	542
Half-year ended 31 December 2015					
External revenue	5,224	1,655	907	9	7,795
Inter-segment revenue	-	-	-	19	19
Total segment revenue	5,224	1,655	907	28	7,814
Segment profit (loss) before income tax	353	299	107	-	759
Segment income tax expense	(94)	(92)	(29)	(11)	(226)
Segment profit (loss) after income tax	259	207	78	(11)	533

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

4.2 Reconciliation of segment profit before income tax

	Dec 2016 $M	Dec 2015 $M
Segment total profit before income tax	812	759
Elimination of intragroup investments	(1)	(5)
Other consolidation eliminations	1	5
Consolidated total profit before income tax	812	759

5. Loans and advances

	Note	Dec 2016 $M	Jun 2016 $M
Financial assets at amortised cost			
Housing loans		44,075	44,252
Consumer loans		268	312
Business loans		9,845	9,716
Other lending		7	18
Gross loans and advances		54,195	54,298
Provision for impairment	6	(148)	(164)
Total loans and advances		54,047	54,134
Current		12,338	12,194
Non-current		41,709	41,940
Total loans and advances		54,047	54,134

6. Provision for impairment on loans and advances

6.1 Reconciliation of provision for impairment on loans and advances

	Dec 2016 $M	Dec 2015 $M
Collective provision		
Balance at the beginning of the period	108	126
Write-back against impairment losses	(6)	(7)
Balance at the end of the period	102	119
Specific provision		
Balance at the beginning of the period	56	82
New and increased individual provisioning	20	28
Write-back of provisions no longer required	(20)	(12)
Impaired provision written off	(7)	(35)
Unwind of discount	(3)	(3)
Balance at the end of the period	46	60
Total provision for impairment	148	179

6.2 Impairment loss on loans and advances

	Dec 2016 $M	Dec 2015 $M
Decrease in collective provision for impairment	(6)	(7)
Increase in specific provision for impairment	-	16
Bad debts written off	8	4
Bad debts recovered	(1)	(2)
Total impairment loss on loans and advances	1	11

7. Deposits and short-term borrowings

	Dec 2016 $M	Jun 2016 $M
Financial liabilities at amortised cost		
Call deposits	18,395	17,139
Term deposits	17,451	18,471
Short-term securities issued	6,972	6,511
Offshore borrowings	127	87
Total financial liabilities at amortised cost	42,945	42,208
Financial liabilities designated at fair value through profit or loss		
Offshore borrowings	3,103	2,681
Total deposits and short-term borrowings	46,048	44,889
Current	45,097	43,960
Non-current	951	929
Total deposits and short-term borrowings	46,048	44,889

Deposits and short-term borrowings outstanding at 31 December 2016 of $303 million (30 June 2016: $300 million) have been obtained under repurchase agreements with the Reserve Bank of Australia.

8. Issues and repayments of debt securities

	Short-term offshore debt securities[1] $M	Securitisation liabilities $M	Debt issues $M	Subordinated notes $M
Balance as at 1 July 2016	2,681	2,535	9,841	1,389
Issues	2,924	-	1,716	330
Repayments	(2,676)	(333)	(1,981)	(98)
Fair value, foreign exchange and other movements	174	2	9	(21)
Balance as at 31 December 2016	3,103	2,204	9,585	1,600
Balance as at 1 July 2015	2,776	3,639	7,869	1,406
Issues	2,290	-	1,611	225
Repayments	(2,480)	(503)	(743)	(199)
Fair value, foreign exchange and other movements	(53)	8	134	(9)
Balance as at 31 December 2015	2,533	3,144	8,871	1,423

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

There were no issues or redemptions of preference shares during the current or prior half-year.

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 2016	1,286,600,980	12,717	63	(101)	12,679
Share issued	3,596,350	46	-	-	46
Share-based payments	-	-	2	-	2
Treasury share movements	-	-	-	(5)	(5)
Balance as at 31 December 2016	1,290,197,330	12,763	65	(106)	12,722
Balance as at 1 July 2015	1,286,600,980	12,717	59	(92)	12,684
Share-based payments	-	-	4	-	4
Treasury share movements	-	-	-	(13)	(13)
Balance as at 31 December 2015	1,286,600,980	12,717	63	(105)	12,675

Dividend reinvestment plan

On 21 September 2016, 3,596,350 ordinary shares were issued and allotted at the issue price of $12.81 per share under the Dividend Reinvestment Plan in respect of the 2016 final dividend. On 2 September 2015, 3,908,498 ordinary shares were allotted at the issue price of $12.92 per share under the Dividend Reinvestment Plan in respect of the 2015 final and special dividends. Shares for the 2 September 2015 allotment were acquired on market for delivery to shareholders and resulted in no issue of new shares.

10. Fair value of financial instruments

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

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

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

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

10. Fair value of financial instruments (continued)

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 2016				Jun 2016			
	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets								
Trading securities	-	1,597	-	1,597	-	1,497	-	1,497
Fair value through profit or loss and available-for-sale financial assets[1,2]	5,213	17,504	7	22,724	4,011	18,008	7	22,026
Derivatives	6	690	-	696	5	671	-	676
	5,219	19,791	7	25,017	4,016	20,176	7	24,199
Financial liabilities								
Short-term offshore borrowings designated as financial liabilities at fair value through profit or loss[3]	-	3,103	-	3,103	-	2,681	-	2,681
Derivatives	10	498	-	508	8	620	-	628
	10	3,601	-	3,611	8	3,301	-	3,309

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

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

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

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

10. Fair value of financial instruments (continued)

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 2016.

			Fair value			
	Note	Carrying value $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at Dec 2016						
Financial assets						
Held-to-maturity investments		1,260	-	1,269	-	1,269
Loans and advances	5	54,047	-	-	54,073	54,073
Financial liabilities						
Deposits and short-term borrowings at amortised cost		42,945	-	42,966	-	42,966
Securitised liabilities	8	2,204	-	2,204	-	2,204
Debt issues	8	9,585	-	9,601	-	9,601
Subordinated notes	8	1,600	789	906	-	1,695
Preference shares		953	982	-	-	982
As at 30 June 2016						
Financial assets						
Held-to-maturity investments		1,358	-	1,374	-	1,374
Loans and advances	5	54,134	-	-	54,237	54,237
Financial liabilities						
Deposits and short-term borrowings at amortised cost		42,208	-	42,282	-	42,282
Securitised liabilities	8	2,535	-	2,532	-	2,532
Debt issues	8	9,841	-	9,904	-	9,904
Subordinated notes	8	1,389	783	606	-	1,389
Preference shares		951	949	-	-	949

11. Related parties

Arrangements for related parties continue to be in place as disclosed in the consolidated financial report for the financial year ended 30 June 2016.

12. Share-based payments

During the half-year, an equity based deferral plan has been introduced to the CEO and Managing Director and the Senior Executives short-term remuneration structure. This will apply to the short-term incentive award relating to the 2017 year. The Long-term Incentives (**LTI**) grants are made to the Senior Executives as part of their remuneration package under the Suncorp Group Equity Incentive Plan.

On 1 September 2016, 1,525,689 (December 2015: 1,338,121) performance rights were offered to Senior Executives. The vesting period for these performance rights is between 1 and 3 years depending on the conditions of the award.

13. Contingent assets and liabilities

There have been no material changes in contingent assets or contingent liabilities since 30 June 2016.

14. Subsequent events

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

DIRECTORS' DECLARATION

In the opinion of the directors of Suncorp Group Limited (the **Company**):

1. The consolidated interim financial statements and notes set out on pages 7 to 20, are in accordance with the *Corporations Act 2001*, including:
   a. giving a true and fair view of the Suncorp Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
   b. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

DR ZIGGY SWITKOWSKI AO	**MICHAEL CAMERON**
Chairman	CEO & Managing Director
9 February 2017	

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SUNCORP GROUP LIMITED

We have reviewed the accompanying consolidated interim financial report of Suncorp Group Limited (the **Company**), which comprises the consolidated interim statement of financial position as at 31 December 2016, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the half-year ended on that date, Notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibility 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* and for such internal control as the directors determine is necessary to enable the preparation of the 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 the 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 Suncorp Group's financial position as at 31 December 2016 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.

Independence

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

Conclusion

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:

(a) giving a true and fair view of the Suncorp Group's financial position as at 31 December 2016 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 the *Corporations Regulations 2001*.

KPMG

Chris Hall
Partner
Sydney

9 February 2017