SUNCORP GROUP LIMITED AND SUBSIDIARIES
ABN 66 145 290 124

Consolidated interim financial report

for the half-year ended 31 December 2015

Contents **Page**

Directors' Report

The directors present their report together with the consolidated interim financial report of the **Suncorp Group** (or **Group**), being Suncorp Group Limited (the **Company**) and its subsidiaries for the half-year ended 31 December 2015 and the auditor's review report thereon.

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	Appointed 22 October 2015
Ewoud J Kulk	Director since 2010
Christine F McLoughlin	Director since 2015
Dr Douglas F McTaggart	Director since 2012
Geoffrey T Ricketts CNZM	Director since 2010

Executive

Michael A Cameron (CEO and Managing Director)	Appointed 1 October 2015 (Non-executive director from 2012 to 30 September 2015)
Patrick J R Snowball	Resigned 30 September 2015

2. Dividends

A fully franked 2015 final dividend of $489 million (38 cents per share) and a fully franked 2015 special dividend of $154 million (12 cents per share) were paid on 22 September 2015. A fully franked 2016 interim dividend of $386 million (30 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 $530 million for the half-year ended 31 December 2015 (December 2014: $631 million).

The Banking and Life segments delivered strong underlying performances demonstrating the value of operating a diversified business model with multiple earnings streams. The General Insurance result was impacted by claims cost inflation and lower investment returns partially offset by a continuation of strong prior year reserve releases.

The Suncorp Group remains focused on delivering exceptional service and increasing value for customers. Material benefits from the Simplification and Optimisation programs have translated to high levels of customer satisfaction, which combined with competitive pricing have resulted in growth across the Group.

3.1.

Overview of the Suncorp Group (continued)

Suncorp Group is well capitalised and has a diversified earnings base that provides a strong foundation to create value for customers and shareholders with the 'One Company. Many Brands' business model. The Suncorp Group will continue to look to maximise its strategic assets of Cost, Capital, Customer and Culture (the "4 Cs"), demonstrated by:

- Cost – a stable operating expense base as a result of leveraging the Group's scale, buying power and supplier relationships;
- Capital – the use of risk based capital (**RBC**) modelling to drive optimal long-term decision making in the Group;
- Customer – enhancing the connection with the Group's nine million customers by broadening their relationships with the Group's brands; and
- Culture – employee engagement and enablement scores above the global high-performing norms which is positioning Suncorp as THE place to work in Australia and New Zealand.

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

3.2.

Financial position and capital structure

Net assets of the Suncorp Group decreased to $13,446 million at 31 December 2015 from $13,518 million at 30 June 2015. The decrease in net assets of $72 million arises from the payment of the final and special dividends in respect of 30 June 2015, partially offset by the profit for the half-year.

Suncorp Group's capital management strategy is to optimise shareholder value by managing the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to maintain and grow the business, in accordance with risk appetite. The Group has continued to improve its risk management capability, further embedding the RBC modelling process into assessment of risk appetite, reinsurance strategy and capital targets and triggers. RBC is also increasingly being used to inform capital allocation and investment decisions.

The Suncorp Group continues to focus on maintaining a strong, de-risked balance sheet while remaining committed to returning surplus capital to shareholders. At 31 December 2015, the General Insurance group's Common Equity Tier 1 (**CET1**) capital position was 1.25 times the Prescribed Capital Amount (June 2015: 1.40 times), the Bank's CET1 ratio was 9.45% (June 2015: 9.15%) and Suncorp Life's CET1 capital position was 1.70 times the Prescribed Capital Amount (June 2015: 1.77 times). After accounting for the interim dividend payment, the Suncorp Group remains well capitalised with $506 million (June 2015: $570 million) in CET1 capital held above its operating targets.

During the half-year AAI Limited, a subsidiary of the Company, issued $225 million of Tier 2 subordinated notes, and redeemed $199 million of transitional Tier 2 subordinated debt at its first call date.

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

General Insurance delivered a net profit after tax of $297 million for the half-year ended 31 December 2015 (December 2014: $419 million).

The insurance trading result (**ITR**) was $377 million (December 2014: $506 million), representing an ITR ratio of 9.4% (December 2014: 12.8%). The result reflects the increased cost of settling claims and lower investment returns, partially offset by continued prior year long-tail reserve releases.

3.3.

Review of principal businesses (continued)

Personal Insurance gross written premium (**GWP**) returned to growth, increasing by 0.6% as a result of targeted average premium increases. Commercial Insurance GWP grew 2.2% due to continued focus on the value for customers in a competitive market. Compulsory Third Party (**CTP**) GWP grew 6.8% leveraging the scale of the national CTP model and through targeted risk selection.

New Zealand GWP was up 2.6% (in $A terms) due to strong growth in personal lines units and moderate rate increases.

Net incurred claims were $2,822 million (December 2014: $2,805 million), with a loss ratio of 70.7% (December 2014: 71.1%). Natural hazard claims were $362 million, $28 million above the allowance for the period. Reserve releases of $137 million continue to be above expectations of 1.5% of net earned premium of $60 million. This was primarily attributable to the proactive management of long-tail claims and benign inflationary environment.

Investment income on Insurance Funds was $99 million (December 2014: $266 million), with losses from widening credit spreads and the relative underperformance of inflation-linked bonds, partially offset by mark-to-market gains from a reduction in risk-free rates. Investment income on Shareholders' Funds of $34 million (December 2014: $82 million) was impacted by volatile equity markets and a lower yield environment.

Banking delivered a net profit after tax of $194 million (December 2014: $176 million), up 10.2%. The result was driven by lending growth and ongoing improvement in credit quality.

Net interest income increased 2.4% to $566 million (December 2014: $553 million). Banking's net interest margin improved two basis points (**bps**) over the half-year to 1.85% to sit at the top of the 1.75% to 1.85% target operating range, with market-wide repricing offsetting increases in funding costs and heightened competition.

Gross loans and advances grew 1.7% to $52.9 billion (June 2015: $51.9 billion), with home lending growth of 3.0% despite intense price competition in the half-year. Banking pursued growth outside its traditional Queensland market with 60% of new business originating interstate supported by strengthened capability in the intermediary channel. Business lending contracted 3.0% during the half-year, partially driven by better than expected seasonal repayments from cropping and livestock proceeds in the agribusiness portfolio.

Impairment losses on loans and advances were $11 million, representing four bps of gross loans and advances. Gross non-performing loans reduced 9.7% to $557 million (June 2015: $617 million). Gross impaired assets decreased 19.3% to $176 million (June 2015: $218 million), representing 33 bps of gross loans and advances.

Retail deposits remain the core source of funding, with a deposit to loan ratio of 65.6%, comfortably within Banking's 60% to 70% target range. The Suncorp Group's A+/A1 rating continued to provide a competitive advantage allowing access to both secured and unsecured funding markets and significant diversification and flexibility.

Life delivered a net profit after tax of $53 million (December 2014: $86 million). Profit after tax was impacted by investment market volatility with actual returns being lower than longer term assumptions. Planned profit margins increased representing in-force growth and the benefits of repricing. Claims and lapse experience were favourable for the half-year.

Life continues to drive sustainable growth across the portfolio with a focus on value over volume. Total annual in-force premiums increased to $1,007 million, an increase of 5.2%. Annual in-force premiums for products sold through General Insurance continued to show strong growth increasing by 20.0%. New business sales volumes were impacted by the winding down of the outbound call centre as the Life business continues to diversify and adjust towards an optimal channel mix.

The Value of One Year's Sales was up 27.8% to $23 million.

3.3. Review of principal businesses (continued)

The New Zealand in-force portfolio grew to $209 million (December 2014: $196 million) through its focus on customer centricity, development of value-adding and sustainable intermediary relationships and a market leading customer retention strategy.

Superannuation funds under administration of $8,128 million reflected the new business growth from WealthSmart and Suncorp Everyday Super and benefits from investment returns. Super volumes are down compared to the prior year where there were strong pension sales ahead of regulatory change.

4. Events subsequent to reporting date

There has not arisen in the interval between 31 December 2015 and the date of this report any other 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.

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 2015.

6. Rounding of amounts

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the Directors' Report have been rounded to the nearest million dollars unless otherwise stated.

Signed in accordance with a resolution of the directors.

Dr Zygmunt E Switkowski AO
Chairman

Michael A Cameron
CEO and Managing Director

11 February 2016

Lead Auditor's Independence Declaration

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 2015 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
Brisbane

11 February 2016

Consolidated interim statement of comprehensive income

For the half-year ended 31 December 2015

	NOTE	Dec 2015	Dec 2014
		$m	$m
Revenue			
Insurance premium income		4,962	4,917
Reinsurance and other recoveries income		792	1,052
Interest income on			
- financial assets not at fair value through profit or loss		1,324	1,437
- financial assets at fair value through profit or loss		298	356
Net gains on financial assets and liabilities at fair value through profit or loss		-	324
Dividend and trust distribution income		121	77
Fees and other income		300	301
Total revenue		7,797	8,464
Expenses			
Claims expense and movement in policyowner liabilities		(3,824)	(4,169)
Outwards reinsurance premium expense		(589)	(633)
Underwriting and policy maintenance expenses		(1,195)	(1,209)
Interest expense on			
- financial liabilities not at fair value through profit or loss		(756)	(889)
- financial liabilities at fair value through profit or loss		(48)	(57)
Net losses on financial assets and liabilities at fair value through profit or loss		(133)	-
Impairment loss on loans and advances	6.2	(11)	(43)
Amortisation and depreciation expense		(71)	(79)
Fees, overheads and other expenses		(411)	(447)
Total expenses		(7,038)	(7,526)
Profit before income tax		759	938
Income tax expense		(226)	(302)
Profit for the period		533	636
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges		21	25
Net change in fair value of available-for-sale financial assets		(3)	3
Exchange differences on translation of foreign operations		56	31
Income tax expense		(6)	(7)
Total other comprehensive income		68	52
Total comprehensive income for the period		601	688
Profit for the period attributable to:			
Owners of the Company		530	631
Non-controlling interests		3	5
Profit for the period		533	636
Total comprehensive income for the period attributable to:			
Owners of the Company		598	683
Non-controlling interests		3	5
Total comprehensive income for the period		601	688
Earnings per share		Cents	Cents
Basic earnings per share		41.45	49.35
Diluted earnings per share		40.56	48.44

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 2015

	NOTE	Dec 2015	Jun 2015
		$m	$m
Assets			
Cash and cash equivalents		1,203	1,216
Receivables due from other banks		464	595
Trading securities		1,119	1,384
Derivatives		691	659
Investment securities		25,025	26,130
Loans and advances	5	52,673	51,735
Premiums outstanding		2,366	2,493
Reinsurance and other recoveries		2,204	2,413
Deferred reinsurance assets		582	813
Deferred acquisition costs		656	661
Gross policy liabilities ceded under reinsurance		419	476
Property, plant and equipment		180	191
Deferred tax assets		176	197
Goodwill and other intangible assets		5,845	5,783
Other assets		842	905
Total assets		94,445	95,651
Liabilities			
Payables due to other banks		401	297
Deposits and short-term borrowings		43,504	43,899
Derivatives		478	536
Amounts due to reinsurers		366	707
Payables and other liabilities		1,362	1,599
Current tax liabilities		14	278
Unearned premium liabilities		4,687	4,708
Outstanding claims liabilities		9,713	9,998
Gross policy liabilities		5,699	5,924
Deferred tax liabilities		109	93
Managed funds units on issue		279	233
Securitisation liabilities	7	3,144	3,639
Debt issues	7	8,871	7,869
Subordinated notes	7	1,423	1,406
Preference shares		949	947
Total liabilities		80,999	82,133
Net assets		13,446	13,518
Equity			
Share capital		12,675	12,684
Reserves		185	167
Retained profits		570	632
Total equity attributable to owners of the Company		13,430	13,483
Non-controlling interests		16	35
Total equity		13,446	13,518

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 2015

	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 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		4	-	(1)	3	-	3
Treasury shares movements		(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
Balance as at 1 July 2014		12,682	206	885	13,773	26	13,799
Profit for the period		-	-	631	631	5	636
Total other comprehensive income for the period		-	52	-	52	-	52
Total comprehensive income for the period		-	52	631	683	5	688
Transactions with owners, recorded directly in equity							
Dividends paid	3	-	-	(897)	(897)	(9)	(906)
Share-based payments		6	-	(2)	4	-	4
Treasury shares movements		(10)	-	-	(10)	-	(10)
Transfers		-	(7)	7	-	-	-
Balance as at 31 December 2014		12,678	251	624	13,553	22	13,575

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 2015

	Dec 2015	Dec 2014
	$m	$m
Cash flows (used in) from operating activities		
Premiums received	5,715	5,646
Claims paid	(4,860)	(4,595)
Interest received	1,617	1,903
Interest paid	(848)	(997)
Reinsurance and other recoveries received	1,069	1,158
Outwards reinsurance premiums paid	(748)	(817)
Fees and other operating income received	309	345
Dividends and trust distributions received	121	77
Fees and operating expenses paid	(1,809)	(2,044)
Income tax paid	(463)	(470)
Net decrease (increase) in operating assets		
Trading securities	264	(702)
Loans and advances	(937)	(373)
Net (decrease) increase in operating liabilities		
Deposits and short-term borrowings	(342)	1,051
Net cash (used in) from operating activities	(912)	182
Cash flows from investing activities		
Net proceeds from the sale and purchase of investment securities	1,016	656
Proceeds from other investing activities	46	65
Payments for other investing activities	(102)	(116)
Net cash from investing activities	960	605
Cash flows used in financing activities		
Net increase (decrease) in borrowings	365	(286)
Payments on call of subordinated notes	(199)	(183)
Proceeds from issue of subordinated notes	225	-
Payments for other financing activities	(51)	(31)
Dividends paid on ordinary shares to owners of the Company	(641)	(897)
Net cash used in financing activities	(301)	(1,397)
Net decrease in cash and cash equivalents	(253)	(610)
Cash and cash equivalents at the beginning of the period	1,514	1,741
Effect of exchange rate fluctuations on cash held	5	1
Cash and cash equivalents at the end of the period	1,266	1,132
Cash and cash equivalents at the end of the period comprises:		
Cash and cash equivalents	1,203	880
Receivables due from other banks	464	566
Payables due to other banks	(401)	(314)
	1,266	1,132

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

Notes to the consolidated interim financial statements

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 2015 comprise the Company and its subsidiaries (the **Suncorp Group** or the **Group**) and were authorised for issue by the Board of Directors on 11 February 2016.

The Group's principal activities during the course of the half-year were the provision of general insurance, banking, life insurance, superannuation products and related services to the retail, corporate and commercial sectors 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 2015 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 2015 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 Class Order 98/100 dated 10 July 1998, 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 2015.

Where necessary, comparatives have been restated to conform to changes in presentation in the current half-year. The presentation of the consolidated interim statement of comprehensive income was changed to reflect the same presentation as the consolidated financial report of the Suncorp Group for the financial year ended 30 June 2015. Consequently, the comparatives for the half-year ended 31 December 2014 have been restated as detailed in note 12.

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 accounting 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's 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 2015.

3. Dividends

	Dec 2015 ¢ per share	Dec 2015 $m	Dec 2014 ¢ per share	Dec 2014 $m
Dividend payments on ordinary shares				
2015 final dividend (December 2014: 2014 final dividend)	38	489	40	515
2015 special dividend (December 2014: 2014 special dividend)	12	154	30	386
Dividends paid on treasury shares	-	(2)	-	(4)
Total dividends on ordinary shares paid to owners of the Company	50	641	70	897
Dividends not recognised in the consolidated interim statement of financial position[1]				
Dividends determined since balance date				
2016 interim dividend (December 2014: 2015 interim dividend)	30	386	38	489

4. Segment reporting

The basis of segmentation and 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 2015.

4.1. Operating segments

BUSINESS AREAS	GENERAL INSURANCE				BANKING	LIFE	CORPORATE	
	Personal $m	Commercial $m	GI NZ $m	Total $m	Banking $m	Life $m	Corporate $m	Total $m
Half-year ended 31 December 2015								
External revenue	2,889	1,826	773	5,488	1,448	873	9	7,818
Inter-segment revenue	-	-	-	-	-	-	19	19
Total segment revenue	2,889	1,826	773	5,488	1,448	873	28	7,837
Segment profit (loss) before income tax	157	172	83	412	278	69	-	759
Segment income tax (expense) benefit	(41)	(51)	(23)	(115)	(84)	(16)	(11)	(226)
Segment profit (loss) after income tax	116	121	60	297	194	53	(11)	533
Half-year ended 31 December 2014								
External revenue	2,946	1,960	931	5,837	1,590	1,073	13	8,513
Inter-segment revenue	-	-	-	-	-	-	22	22
Total segment revenue	2,946	1,960	931	5,837	1,590	1,073	35	8,535
Segment profit (loss) before income tax	252	238	104	594	252	140	(48)	938
Segment income tax (expense) benefit	(76)	(71)	(28)	(175)	(76)	(54)	3	(302)
Segment profit (loss) after income tax	176	167	76	419	176	86	(45)	636

[1] The total 2016 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 2015. The actual amount recognised in the consolidated financial statements for the financial year ending 30 June 2016 will be based on the actual number of ordinary shares on issue net of treasury shares on the record date.

4.2.
Reconciliation of segment profit before income tax

	Dec 2015 $m	Dec 2014 $m
Segment profit before income tax	759	938
Elimination of intragroup investments	(5)	(3)
Other consolidation eliminations	5	3
Consolidated profit before income tax	759	938

5. Loans and advances

	Dec 2015 $m	Jun 2015 $m
Financial assets at amortised cost		
Housing loans	43,046	41,785
Consumer loans	345	380
Business loans	9,461	9,753
Other lending	-	25
	52,852	51,943
Provision for impairment	(179)	(208)
Total loans and advances	52,673	51,735
Current	12,757	11,563
Non-current	39,916	40,172
Total loans and advances	52,673	51,735

6. Provision for impairment on loans and advances
6.1.
Reconciliation of provision for impairment on loans and advances

	Dec 2015 $m	Dec 2014 $m
Collective provision		
Balance at the beginning of the period	126	120
(Credit) charge against impairment losses	(7)	9
Balance at the end of the period	119	129
Specific provision		
Balance at the beginning of the period	82	106
Charge against impairment losses	16	32
Impaired assets written off	(35)	(29)
Unwind of discount	(3)	(5)
Balance at the end of the period	60	104
Total provisions	179	233

6.2.
Impairment loss on loans and advances

	Dec 2015 $m	Dec 2014 $m
(Decrease) increase in collective provision for impairment	(7)	9
Increase in specific provision for impairment	16	32
Bad debts written off	4	2
Bad debts recovered	(2)	-
Total impairment loss on loans and advances	11	43

7. 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 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
Balance as at 1 July 2014	2,711	3,581	6,831	1,557
Issues	3,850	-	2,063	-
Repayments	(3,330)	(746)	(1,377)	(183)
Fair value, foreign exchange and other movements	234	23	203	8
Balance as at 31 December 2014	3,465	2,858	7,720	1,382

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

8. Issued capital

There has been no issue or buy-back of ordinary shares during the current or prior half-year. The number of ordinary shares on issue as at 31 December 2015 was 1,286,600,980.

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. On 1 October 2014, 8,173,876 ordinary shares were allotted at the issue price of $14.64 per share under the Dividend Reinvestment Plan in respect of the 2014 final and special dividends. Shares for both allotments were acquired on market for delivery to shareholders and resulted in no issue of new shares.

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

9. 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.

9.1. Financial assets and liabilities not recognised and measured at fair value

The following table presents a comparison of carrying value and fair value of financial assets and liabilities that are not recognised and measured at fair value, 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 to those used in the financial year ended 30 June 2015.

	NOTE	Carrying value $m	Fair value Level 1 $m	Level 2 $m	Level 3 $m	Total $m
As at 31 December 2015						
Financial assets						
Held-to-maturity investments[1]		2,995	-	3,009	-	3,009
Loans and advances	5	52,673	-	-	52,735	52,735
Financial liabilities						
Deposits and short-term borrowings at amortised cost[2]		40,971	-	40,516	-	40,516
Securitised liabilities	7	3,144	-	3,192	-	3,192
Debt issues	7	8,871	-	8,910	-	8,910
Subordinated notes	7	1,423	787	642	-	1,429
Preference shares		949	950	-	-	950
As at 30 June 2015						
Financial assets						
Held-to-maturity investments[1]		3,642	-	3,665	-	3,665
Loans and advances	5	51,735	-	-	53,260	53,260
Financial liabilities						
Deposits and short-term borrowings at amortised cost[2]		41,123	-	40,730	-	40,730
Securitised liabilities	7	3,639	-	3,677	-	3,677
Debt issues	7	7,869	-	7,961	-	7,961
Subordinated notes	7	1,406	789	613	-	1,402
Preference shares		947	956	-	-	956

[1] Disclosed within the consolidated interim statement of financial position category of 'Investment securities'.
[2] Disclosed within the consolidated interim statement of financial position category of 'Deposits and short-term borrowings'.

9.2.

Financial assets and liabilities recognised and measured at fair value

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
As at 31 December 2015				
Financial assets				
Trading securities	-	1,119	-	1,119
Fair value through profit or loss and available-for-sale financial assets[1]	4,650	17,380	-	22,030
Derivatives	12	679	-	691
Financial liabilities				
Short-term offshore borrowings designated as financial liabilities at fair value through profit or loss [2]	-	2,533	-	2,533
Derivatives	5	473	-	478
As at 30 June 2015				
Financial assets				
Trading securities	-	1,384	-	1,384
Fair value through profit or loss and available-for-sale financial assets[1]	4,394	18,094	-	22,488
Derivatives	4	655	-	659
Financial liabilities				
Short-term offshore borrowings designated as financial liabilities at fair value through profit or loss [2]	-	2,776	-	2,776
Derivatives	3	516	17	536

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

Level 3 derivatives relate to long-dated interest rate swaps and cross currency swaps in relation to the Apollo securitisation trusts where a significant input is the amortisation profile of the mortgage portfolio. The valuation methodology for derivative financial instruments classified within Level 3 of the fair value hierarchy is based on market data using observable quoted rates for actively traded tenor points. Where interpolation is used to value an instrument for the correct time periods, observable inputs such as the bank bill swap rate (**BBSW**) yield curves and swap curve rates are used.

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

[1] Disclosed within the consolidated interim statement of financial position category of 'Investment securities'.
[2] Disclosed within the consolidated interim statement of financial position category of 'Deposits and short-term borrowings'.

9.2. Financial assets and liabilities recognised and measured at fair value (continued)

The following table discloses the movements in Level 3 derivative financial instruments. During the half-year ended 31 December 2015, the Suncorp Group reclassified $12 million of derivative liabilities from Level 3 to Level 2 due to changes in the observability of market inputs.

	Dec 2015		Dec 2014	
	Derivatives		Derivatives	
	Asset $m	Liability $m	Asset $m	Liability $m
Balance at the beginning of the period	-	17	34	96
Total gains or losses included in profit or loss[1]	-	(5)	5	(5)
Transfer out to Level 2	-	(12)	-	(26)
Settlements	-	-	(27)	(40)
Balance at the end of the period	-	-	12	25

10. Related parties

Except as disclosed below, arrangements for related parties continue to be in place as disclosed in the consolidated financial report for the financial year ended 30 June 2015.

Share-based payments

During the half-year, the following Long-term Incentives (**LTI**) grants were made to the CEO and executives as part of their remuneration package under the Suncorp Group Equity Incentive Plan:

- 226,639 (December 2014: 276,839) performance rights were offered to the CEO as approved and resolved by shareholders at the 2015 Annual General Meeting on 24 September 2015 (December 2014: 2014 Annual General Meeting on 23 October 2014). The fair value per share at grant date was $5.61 (December 2014: $8.23).
- 1,111,482 (December 2014: 929,386) performance rights were offered to executives on 1 September 2015 (December 2014: 1 October 2014). The fair value per share at grant date was $6.16 (December 2014: $8.19).

The vesting period is three years. The features and performance criteria for the LTI are described in note 10 to the Suncorp Group consolidated financial report for the financial year ended 30 June 2015.

During the half-year, restricted shares were offered to the CEO in three tranches of 80,000 shares with each tranche subject to a different vesting period as approved and resolved by shareholders at the 2015 Annual General Meeting on 24 September 2015. The fair value of each share at grant date was $12.38 for tranche 1, $12.37 for tranche 2 and $12.35 for tranche 3.

11. Contingent assets and liabilities

There have been no material changes in contingent assets or contingent liabilities since 30 June 2015.

[1] All gains or losses included in the profit or loss relate to assets and liabilities held at the end of the period (i.e. unrealised).

12. Changes to comparatives

The presentation of the consolidated interim statement of comprehensive income was changed to reflect the same presentation as the consolidated financial report of the Suncorp Group for the financial year ended 30 June 2015. Consequently, the comparatives for the half-year ended December 2014 have been restated and are outlined below. The change in presentation resulted in no impact to profit before or after tax to the December 2014 comparatives.

Reclassified consolidated interim statement of comprehensive income (extract)

	Previously reported Dec 2014 $m	Reclass-ification $m	Restated Dec 2014 $m
Revenue			
Banking interest income	1,461	(1,461)	-
Investment revenue	733	(733)	-
Interest income on			
- financial assets not at fair value through profit or loss	-	1,437	1,437
- financial assets at fair value through profit or loss	-	356	356
Net gains on financial assets and liabilities at fair value through profit or loss	-	324	324
Dividend and trust distribution income	-	77	77
Other income	301	(301)	-
Fees and other income	-	301	301
Total revenue items which have been restated	2,495	-	2,495
Total revenue items not restated	5,969	-	5,969
Total revenue	8,464	-	8,464
Expenses			
General Insurance claims expense	(3,739)	3,739	-
Life insurance claims expense and movement in policyowner liabilities	(430)	430	-
Claims expense and movement in policyowner liabilities	-	(4,169)	(4,169)
Interest expense	(946)	946	-
Interest expense on			
- financial liabilities not at fair value through profit or loss	-	(889)	(889)
- financial liabilities at fair value through profit or loss	-	(57)	(57)
Fees and commissions expense	(415)	415	-
Operating expenses	(1,320)	1,320	-
Fees, overheads and other expenses	-	(447)	(447)
Underwriting and policy maintenance expenses	-	(1,209)	(1,209)
Amortisation and depreciation expense	-	(79)	(79)
Total expense items which have been restated	(6,850)	-	(6,850)
Total expense items not restated	(676)	-	(676)
Total expenses	(7,526)	-	(7,526)
Profit before tax	938	-	938
Income tax expense	(302)	-	(302)
Profit for the financial year attributed to owners of the Company	636	-	636
Total comprehensive income for the financial year attributed to owners of the Company	688	-	688

13. Subsequent events

There has not arisen in the interval between 31 December 2015 and the date of this report any other 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.

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 6 to 17, 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 2015 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*; 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 Zygmunt E Switkowski AO
Chairman

Michael A Cameron
CEO and Managing Director

11 February 2016

Independent auditor's review report to the members of Suncorp Group Limited

We have reviewed the accompanying interim financial report of Suncorp Group Limited (the **Company**), which comprises the consolidated interim statement of financial position as at 31 December 2015, 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 13 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Suncorp Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the 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

Our responsibility is to express a conclusion on the 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 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 2015 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 an 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 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 2015 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
Brisbane

11 February 2016