SUNCORP-METWAY LIMITED AND SUBSIDIARIES
ABN 66 010 831 722

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

The directors present their report together with the financial report of the consolidated entity (or **Group**), being Suncorp-Metway Limited (the **Company**) and its subsidiaries, for the financial year ended 30 June 2017 (**2016-17**) and the auditor's report thereon. Terms that are defined appear in bold the first time they are used.

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1. Directors' profiles

The names of the people who served as directors of the Company at any time during or since the end of the 2016-17 financial year are set out below. All non-executive directors are members of the Nomination Committee.

Dr Zygmunt E Switkowski AO

BSc (Hons), PhD, FAICD, FAA, FTSE
Non-executive Chairman, age 69

Dr Switkowski has been a director of the Group since September 2005, and Chairman since October 2011. He is an ex officio member of the Audit, Remuneration and Risk Committees. He is Chairman of NBN Co Limited, and a director of Healthscope Limited (since April 2016) and Tabcorp Holdings Limited (since October 2016). He is the Chancellor of RMIT University. During his career, Dr Switkowski has held senior executive positions in the communications industry with Telstra Corporation and Optus Communications, and previously at Kodak Australasia. In June 2014, he received the Order of Australia for his contribution to the arts, sciences, tertiary education and the telecommunications and business community.

Michael A Cameron

FCPA, FCA, FAICD
CEO & Managing Director, age 57

Mr Cameron was appointed Chief Executive Officer and Managing Director (**CEO & Managing Director**) in October 2015. He was a non-executive director from April 2012 to September 2015. He was previously CEO and Managing Director of The GPT Group (2009–2015), Chief Financial Officer (**CFO**) at St George Bank from mid-2007 until the sale to Westpac Banking Corporation in 2008, Group Chief Financial Officer of Commonwealth Bank of Australia, then Group Executive of their Retail Bank Division. He also spent 10 years with Lendlease in a number of senior positions, including CFO at MLC Limited. Mr Cameron is a director of the Great Barrier Reef Foundation, and Chairman of the Financial Sector Advisory Council.

William J Bartlett

FCPA, FCA, FAICD, FCMA, CA (SA)
Non-executive director, age 68

Mr Bartlett has been a director of the Group since July 2003. He is a member of the Audit, Risk and Remuneration Committees. He is a director of Reinsurance Group of America Inc. (listed on NYSE) (since May 2004), RGA Reinsurance Company of Australia Limited, and both GWA International Limited and Abacus Property Group (since February 2007). He is Chairman of the Cerebral Palsy Foundation's Council of Governors. Mr Bartlett has over 35 years' experience in accounting. He was a partner of Ernst & Young in Australia for 23 years, retiring in mid-2003. Mr Bartlett has extensive experience in the actuarial, insurance and financial services sectors through membership of many industry and regulatory advisory bodies, including the Life Insurance Actuarial Standards Board (1994–2007).

Audette E Exel AO

BA, LLB (Hons)
Non-executive director, age 54

Ms Exel has been a director of the Group since June 2012. She is a member of the Risk Committee. Ms Exel is the founder of the Adara Group and Chief Executive Officer of its Australian companies. Before establishing the Adara Group, she was Managing Director of Bermuda Commercial Bank (1993–1996), Chairman of the Bermuda Stock Exchange (1995–1996) and served on the board of the Bermuda Monetary Authority (1999–2005). Ms Exel began her career as a lawyer specialising in international finance. In 2013, she was awarded an honorary Order of Australia for service to humanity (through the Adara Group) in Uganda and Nepal and in 2014 was recognised by Forbes as a 'Hero of Philanthropy'. In 2015, Ms Exel was inducted into the Australian Businesswomen's Hall of Fame, and was a recipient of a World Class New Zealander Award. In 2016, she was named Australia's 2016 'Leading Philanthropist' by Philanthropy Australia.

Sally Herman

BA, GAICD
Non-executive director, age 60

Ms Herman has been a director of the Group since October 2015. She is a member of the Audit Committee. Ms Herman is an experienced non-executive director in the financial services, retail, manufacturing and property sectors. Her directorships include Breville Group Limited (since March 2013), Premier Investments Limited (since December 2011), Investec Property Limited (since July 2013), and previously FSA Group Limited (2011–2014) and property advisory firm Urbis (2011-2016).

Her executive career in Australia and the USA includes 16 years with the Westpac Group managing major business units in most of its operating divisions. Ms Herman is Chairman of an independent girls' school in Sydney and a director of Sydney Harbour Federation Trust. She also serves on the advisory boards of several community groups.

Ewoud J Kulk

BEcon, FAICD
Non-executive director, age 71

Mr Kulk has been a director of the Group since March 2007. He is Chairman of AA Insurance Limited (NZ), Chairman of the Risk Committee and a member of the Remuneration Committee. Mr Kulk has over 25 years' experience in the insurance industry. He is a director of the Westmead Millennium Institute, a past member of the NSW Council of the Australian Institute of Company Directors and a past president of the Insurance Council of Australia. Mr Kulk was a director of Promina Group at the date of the merger with Suncorp in 2007. He was Group Director Asia Pacific for Royal & Sun Alliance Insurance Group (1998–2003) and Managing Director of Australian General Insurance Group (1994–1998).

Simon C J Machell

BA (Hons), FCA
Non-executive director, age 53

Mr Machell has been a director of the Group since April 2017. Mr Machell has over 30 years' experience in the insurance industry throughout Europe and Asia. He currently serves as a non-executive director of Tesco Personal Finance plc (UK), Tesco Personal Finance Group Limited (UK) (trading as Tesco Bank), and is Chairman of Tesco Underwriting Limited (UK). Mr Machell is also a non-executive director and Chairman of the Risk Committee for Prudential Corporation Asia Limited (Hong Kong) and a non-executive director of Pacific Life Re Limited (UK). Mr Machell was with Aviva and its predecessor companies for over 20 years and had roles including CEO of Norwich Union General Insurance in the UK (2007 to 2013) and CEO of all Aviva's businesses in Asia and eastern Europe.

Christine F McLoughlin

BA, LLB (Hons), FAICD
Non-executive director, age 54

Ms McLoughlin has been a director of the Group since February 2015. She is Chairman of the Remuneration Committee and a member of the Risk Committee. Ms McLoughlin began her career as a commercial lawyer. She has extensive business experience in Australia, the UK, New Zealand and South East Asia holding senior executive roles in the financial services and telecommunications sectors. Her current listed directorships include nib Holdings Limited (since March 2011), Whitehaven Coal Limited (since May 2012), Spark Infrastructure RE Limited (since October 2014) and McGrath Foundation (since September 2016). She is Chairman of Venues New South Wales and a member of the Australian Securities and Investments Commission's Director Advisory Panel.

Dr Douglas F McTaggart

BEcon (Hons), MA, PhD, DUniv, FAICD, SF Fin
Non-executive director, age 64

Dr McTaggart has been a director since April 2012. He is Chairman of the Audit Committee and a member of the Remuneration Committee. Dr McTaggart has extensive experience in financial markets, having been Chief Executive of QIC Limited (1998–2012). Prior to QIC, he was Under Treasurer and Under Secretary of the Queensland Department of Treasury and had a distinguished academic career. He is currently Chairman of Spark Infrastructure RE Limited (since May 2016), the QIMR Berghofer Medical Research Institute Council and SunCentral Maroochydore Pty Ltd. He serves on the Australian National University Council and the Economic Development Advisory Panel (NSW). Dr McTaggart was a director of UGL Limited from 2012-2015 and he has served in various expert advisory roles to government and on several industry representative bodies.

Geoffrey T Ricketts CNZM

LLB (Hons), LLD (Honoris Causa), FInstD
Former Non-executive director

Mr Ricketts retired at the AGM on 22 September 2016. He was a director of the Group from March 2007, having been a director of Promina Group at the date of the merger with Suncorp in that year.

2. Directors' meetings

Suncorp Group Limited (**SGL**), the Company's ultimate parent entity, is the listed holding company of the Suncorp Group of companies. SGL and its subsidiaries is referred to as the **Suncorp Group** or **Suncorp**. The directors of SGL are also directors of the Company.

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each director (or former director) of the Company during 2016-17 are set out in the table below.

	Board of Directors		Audit Committee		Risk Committee		Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
Dr Z E Switkowski AO	13	13	5	5	5	5	4	4	5	5
M A Cameron[1]	13	13	5	5	5	5	4	4	-	-
W J Bartlett	13	11	5	5	5	3	4	4	5	4
A E Exel AO	13	13	-	-	5	4	-	-	5	5
S Herman	13	13	5	5	-	-	-	-	5	5
E J Kulk	13	13	-	-	5	5	4	4	5	5
S C J Machell	3	3	-	-	-	-	-	-	1	1
C F McLoughlin	13	13	-	-	5	5	4	4	5	5
Dr D F McTaggart	13	13	5	5	-	-	4	4	5	5
G T Ricketts CNZM	3	3	2	2	-	-	-	-	-	-

A Number of meetings held during the year while the director was a member of the Board or Committee.

B Number of meetings attended by the director during the year while the director was a member of the Board or Committee.

1 The CEO & Managing Director attends Audit Committee, Risk Committee and Remuneration Committee meetings at the invitation of those committees. There are no management representatives appointed as members of any board committee.

3. Directors' interests

No director holds any interest in the Company at 30 June 2017. However, the directors hold interests in SGL. The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by SGL, as notified by the directors to the Australian Securities Exchange (**ASX**) in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report, is as follows:

	Fully paid ordinary shares (SUN)	Convertible preference shares (SUNPE, SUNPC)
Dr Z E Switkowski AO	311,599	-
M A Cameron[1]	716,656	-
W J Bartlett	26,968	323 SUNPE
A E Exel AO	14,612	-
S Herman	16,500	-
E J Kulk	20,173	3,000 SUNPC
S C J Machell	25,000	-
C F McLoughlin	20,000	-
Dr D F McTaggart	20,011	-
G T Ricketts CNZM	34,094	-

1 Includes 541,656 shares held by the trustee of the Suncorp Group Equity Incentive Plan Trust. Beneficial entitlement to these shares remains subject to satisfaction of specified performance hurdles.

4. Company Secretary

Details of the Company Secretaries during the financial year to 30 June 2017 and as at the date of this report are set out below.

Mr Darren Solomon *LLB* was appointed Company Secretary in 2010. Mr Solomon commenced with Suncorp in 1989 as a senior lawyer in the legal department before moving to the Company Secretariat team in 2006.

Ms Kristy Huxtable *FGIA, MAICD, MBA, Grad Dip (GIA), Grad Dip (HR)* was appointed Company Secretary on 1 August 2016 and has been with the Company Secretariat team since January 2014. Ms Huxtable has extensive corporate governance and secretarial experience within financial services.

Ms Anna Lenahan was Company Secretary during the financial year until her resignation from this role on 5 August 2016.

The Company Secretaries are directly accountable to the Board, through the Board Chairman, for all governance matters that relate to the Board's proper functioning.

5. Remuneration Report

The Remuneration Report is set out on pages 16 to 45 and forms part of the Directors' Report for the financial year ended 30 June 2017.

6. Principal activities

The Company is an Authorised Deposit-taking Institution (**ADI**). The principal activities of the Group during the course of the financial year were the provision of banking and related services to the retail, commercial, small and medium enterprises and agribusiness sectors in Australia. The Group conducts the Banking operations of the Suncorp Group.

There were no significant changes in the nature of the Group's activities during the financial year.

6.1 Company's objectives

The objectives of the Company are to deliver outcomes related to the Banking and Group wide overall objectives of the Suncorp Group.

Suncorp Group's purpose is to create a better today for our customers, communities, shareholders, and our people. We want to help people live the life they want now and plan for the life they want tomorrow.

During the financial year, the Suncorp strategy evolved to more explicitly acknowledge how central the customer is to what we do. This reflects Suncorp's aspiration to be an agile, resilient financial services company that delivers sustainable shareholder returns and is a responsible and valuable contributor to society. The Group's vision is to be the 'destination for the moments that matter'. We aim to have a deeper understanding of our customers' needs and support them through important journeys in their lives, with personalised experiences and integrated offers.

We continue to live our purpose and achieve our vision by working as 'One Suncorp' and collaborating across the business to deliver on our vision.

To achieve the vision, we will focus on four strategic priorities:

Elevate the customer: We will use insights to understand and meet customer needs, embed a customer-centric culture and deliver a great customer experience. We strive to deliver a seamless customer experience that is consistently great, and brilliant in the moments that matter.

Create the Marketplace: The Suncorp Marketplace will create a connected network of brands, partners, solutions and channels to meet our customers' financial wellbeing needs. We will provide our customers with a suite of personalised solutions that meet their needs at key moments in their lives.

Maintain momentum and grow: We will build and protect our reputation for excellence in manufacturing financial services solutions for customers in Australia and New Zealand. This will be achieved through an increased focus on targeted revenue growth opportunities, operational excellence including simplification and digitisation, and disciplined portfolio management.

Inspire our people: Achieving the strategy will require a diverse, inclusive and highly engaged workforce. This will be achieved through a focus on improving engagement and the core work experience, so that our people have the capability, technology and workspaces they need to be their best.

7. Dividends

A 2016 final dividend of $175 million (64 cents per share) and a 2017 interim dividend of $154 million (57 cents per share) was paid during the financial year. A 2017 final dividend of $181 million (67 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 financial statements.

8. Operating and financial review

8.1 Overview of the Group

The Group delivered profit after tax of $394 million (2015-16: $383 million) impacted by additional investment in the Core Banking platform, crucial to support the Group strategy. The result reflects sustainable lending and funding practices, while successfully adapting to changing economic and regulatory dynamics

8.2 Review of principal business

Lending growth of 1.9% reflected improved momentum in the second half of the financial year. This was a result of the Group's early response to macro-prudential and responsible lending measures after refraining from participating in intense pricing competition during the first half of the financial year. Retail lending growth of 1.2% was driven by the introduction of new competitive offers, improved retention rates and improved loan approval processes. Business lending growth of 5.2% was driven by new business volumes from target industries.

Net interest income is $1,131 million (2015-16: $1,129 million). The full year net interest margin of 1.83% was at the top end of the target range, and above the target range for the second half of the financial year, following product repricing at the midpoint of the financial year.

The Group's cost-to-income ratio of 52.9% was impacted by lower lending growth, low interest rates and low economic growth, along with further investment in the Suncorp strategy to position the business for growth. Operating expenses were flat at $638 million (2015-16: $653 million), including additional expenditure to complete the migration of loans and lending origination to the Core Banking platform.

In line with the industry, the Group has made changes to its hardship framework to align with regulatory standards. As expected, the Group is now reporting higher arrears as a result of this revised treatment, as well as the temporary impacts of Cyclone Debbie.

8.3 Review of financial position

Total assets decreased by $195 million or 0.3% to $63,421 million compared with June 2016.

Cash and cash equivalents decreased by $125 million reflecting the strong lending growth experienced towards the end of the financial year, although the amount held continues to support prudential requirements.

Derivatives assets decreased by $537 million mainly due to the impact of the mark-to-market of cross currency swaps.

Investment securities decreased $665 million mainly due to a reduction of physical liquid assets required as collateral for the Committed Liquidity Facility.

Loans and advances increased $1,063 million primarily due to growth in business and home lending. Several initiatives were implemented within the home lending portfolio to improve customer experience and increase efficiency. These include a review of the existing loan approval process, utilising risk-based verification for select activities and increasing customer-led opportunities.

Total liabilities decreased by $581 million or 1.0% to $59,297 million compared with June 2016.

Payables due to other banks decreased $282 million driven by treasury collateral received from financial institutions.

Deposits and short-term borrowings increased $6 million as the Group continues to manage its deposit-to-loan ratio within the target operating range.

Derivatives liabilities decreased by $144 million largely due to mark-to-market of interest rate swaps.

Securitisation liabilities increased $544 million due to the establishment of a new securitisation trust. This was partially offset by repayments which are contractually linked to the run-off in the underlying securitised mortgages.

Debt issues decreased $644 million largely due to $3,371 million of debt matured exceeded $2,900 million debt issuances during the financial year.

Total equity increased by $386 million or 10.3% to $4,124 million compared with June 2016.

Capital notes increased $375 million from Capital Notes issued to SGL.

8.4 Review of capital structure

The 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 is subject to, and complies with, external capital requirements set and monitored by the Australian Prudential Regulation Authority (**APRA**). The Group has complied with external capital requirements which it is subject to during the current and prior financial years.

The Suncorp Group's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Group as a whole and each regulated entity, is capitalised to meet both internal and external requirements. The ICAAP is reviewed regularly and, where appropriate, adjustments are made to reflect changes in the Group's capital requirements.

A range of instruments and methodologies are used to effectively manage capital including share issues, reinsurance, dividend policies and Tier 1 and Tier 2 instruments. Capital targets are structured according to

risk appetite, the applicable regulatory framework and APRA's Non-Operating Holding Company conditions.

For regulatory purposes, capital is classified as follows:

- Common Equity Tier 1 (**CET1**) comprising accounting equity with adjustments for intangible assets and regulatory reserves.
- Tier 1 Capital comprising CET1 plus Additional Tier 1 Capital such as hybrid securities with 'equity-like' qualities.
- Tier 2 Capital comprising APRA reserve for credit losses and eligible hybrid capital.
- Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

CET1 has the greatest capacity to absorb potential losses, followed by Additional Tier 1 Capital and then Tier 2 Capital.

The Group's CET1 ratio was 9.18% (2016: 9.15%), above its target operating range of 8.5% - 9.0% of Risk Weighted Assets.

9. Significant changes in Group's state of affairs

On 1 July 2016, the Suncorp Group implemented a revised operating model and organisational structure. The operating model comprises the functions: Insurance, Banking and Wealth, New Zealand, Customer Experience, Customer Platforms, Finance and Advice, People Experience, and Technology, Data and Labs.

The Suncorp Group has articulated its strategic vision and outlook to 2020 and continues to focus on building a business that creates value for customers. Suncorp's key priorities are to elevate the customer, create the Marketplace, maintain momentum and grow, and inspire our people. There is an increased focus on building partnerships with third parties to extend the range of solutions for Suncorp's customers and to drive growth for the business.

There have been no significant changes in the state of affairs of the Group during the financial year, other than as disclosed in this Directors' Report and Financial Statements.

10. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial 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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

11. Likely developments

The Group is committed to driving sustainable profitable growth. The group remains focused on growing savings and transaction banking solutions through improved digital capability and integrated customer offers. The additional investment in the Marketplace will also support national expansion of the Group's brand.

The current regulatory and political activity in the banking industry provides an opportunity for the Group. The Group has a strong balance sheet, unchanged A+/A1/A+ issuer credit ratings and is not directly impacted by the recently introduced bank levy. This provides a comparative funding advantage to peers which allows the Group to maintain a sustainable and diversified funding base.

The Group is seeing a range of benefits from operating as an advanced bank including improved granularity of information enabling better risk selection, better analysis of risk/return and improved credit

quality and provisioning experience. Advanced modelling techniques also allow greater understanding of provisioning and capital requirements in stressed environments, enabling increased confidence in the strength of its capital and liquidity targets.

The Core Banking Platform implemented last financial year has taken longer than expected to fully embed and adapt for use in the Australian market. The Group will soon complete the final migration phase for remaining retail loans at which point it will pause the migration of deposits and transaction banking products, pending further system enhancements from the vendor. The Group recognises transaction banking as one of the most important services it provides to customers and will focus on accelerating payment technology and digital banking capabilities to deliver increased value to customers as society continues to progress towards cashless transactions.

12. Key internal and external risks

The risks that the Group manages include strategic, insurance, counterparty, market, asset and liability, liquidity, operational, and compliance-related risks.

Policies, procedures, limits and other controls are in place at either the Suncorp or Functional level to manage these risks and align to the Board's risk appetite.

The key business risks that may impact business strategies and financial prospects include the following:

- Risks relating to the execution of strategic initiatives. To achieve the vision of being the 'destination for moments that matter' and delivering of the 'Marketplace' will require investment and resources. As the internal and external environment shifts, a level of agility will be required around these investment decisions. The introduction of the Chief Program Excellence Office is an important mechanism in managing this risk.
- Risks relating to the failure to meet government or regulatory expectations. The business has programs in place to lead the development and implementation of regulatory change. As the regulatory and competitive landscape evolves Suncorp will consider taking a pro-active role in engaging with and policy makers and to influence regulatory change.
- Shifts in competitor and market dynamics, including new sources of competition from non-traditional sources, associated technological advancement and disruptive business models. Delivering on the Marketplace will be an important enabler in responding to the changing customer dynamics. The Marketplace seeks to shift away from individual commoditised products to a single destination where customers can meet their financial wellbeing needs.
- Loss, compromise or unavailability of Suncorp-wide data due to failure to maintain a secure technology environment. Suncorp's Technology, Data and Labs Function has oversight of key cyber security threats, and is continually investing in the systems, processes and controls to manage this risk and respond to emerging threats. The importance of and accountability for security is reinforced to all staff through policy, procedures and education.
- Human behaviours at work and towards work are changing. The Inspire Our People strategic priority elevates the importance that our people and partners have on the delivery of our strategy. A key component of this priority is the development of the workforce and workspace of the future. This initiative seeks to promote an agile workforce that leverages technology, operates without boundaries and is better able to meet the needs of our customer and the business.
- Ongoing economic instability and a continued low yield environment. Suncorp consistently monitors these risks by examining market conditions and adopts appropriate strategies to help protect the business.

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13. Impact of legislation and other external requirements

The Group operates in a highly regulated industry sector.

There continues to be significant and numerous domestic and global legislative and regulatory reforms and proposals, as well as numerous government and regulator consultations, reviews and inquiries which may result in changes or proposals that could or may impact the Group and its operations now and in the future.

Some of the various matters that could or may impact the Group include the following:

- The passing of legislation to enable class actions in Queensland.
- The increasing attention from regulators on climate change risks and associated disclosure of those risks.
- The Australian Consumer Law (**ACL**) review.
- The Australian Bankers' Association (**ABA**) 'six point initiatives/plan' intended to implement comprehensive new measures to protect consumer interests and increase transparency and accountability in the banking industry.
- The ABA's Better Banking program initiatives of which the ABA's 'six point initiatives/ plan' forms part.
- The Australian Securities and Investments Commission (**ASIC**) and Australian Small Business and Family Enterprise Ombudsman Inquiry into small business loans, including the ABA endorsement of the recommendations made by the Inquiry.
- The ABA's commission of the Retail Banking Remuneration Review (product sales commission and payments) and publication of the report on the review (the Sedgwick Report).
- APRA's consultation on proposed changes to the large exposures prudential framework.
- The publication of the Final Report of Independent Review of the Code of Banking Practice (the Khoury Review) and the ABA's support of the majority of the Khoury Review's recommendations.
- The introduction of new measures by APRA to reinforce sound residential mortgage lending practices.
- The imposition by APRA of new capital and maximum requirements in respect of residential mortgage lending.
- The Federal Government's focus on improving consumer outcomes and competition in the home loan market.
- The ongoing Federal House of Representatives Standing Committee on Economics Review of the Four Major Banks.
- The ongoing Federal Senate Inquiries into Australia's banking, insurance and financial services sectors.
- The Federal Treasury consultation on proposed financial industry supervisory levels that will apply for the 2017-18 financial year.
- The Inquiry into whistle blower protections led by the Federal Parliamentary Joint Committee on Corporations and Financial Services.
- The proposed Productivity Commission Inquiry into competition in the Australian financial system.
- The Federal Government's consultation on a proposed new dispute resolution framework for financial disputes which includes a 'one stop shop' for the determination of customer disputes in the financial services sector – the Australian Financial Complaints Authority.
- ASIC's review of the significant breach self-reporting requirements for financial services licensees.

- The Federal Attorney-General's Department consultation on anti-money laundering and counter-terrorism financing laws (including the potential regulation of digital currency under those laws).
- The passage by Queensland Parliament of legislation which sets out a resolution process for farm business debt matters between mortgagees and farmers.
- The Federal Government's continued focus on developing legislation to address fintech developments such as crowdfunding.
- The Federal Government's introduction of a Bill to amend the misuse of market power provisions of the ACL.
- The passage by Federal Parliament of legislation:
  - introducing mandatory data breach notification provisions
  - to ensure that card system participants can comply with the new interchange fees standard determined by the Reserve Bank of Australia (**RBA**)
  - to mandate professional standards for financial advisers
- The Federal Budget 2017–18 announcements including:
  - the proposed levy on major banks
  - a residential mortgage pricing inquiry by the Australian Competition and Consumer Commission (**ACCC**)
  - the introduction of the Bank Executive Accountability Regime (**BEAR**) legislation, which will impose additional duties and behavioural expectations on banks and their executives and impose substantial penalties if those duties are breached, or the expectations are not met.
  - funding to ACCC to undertake inquiries into financial system competition issues
  - the introduction of the Australian Financial Complaints Authority
  - changes that impact personal income tax, company tax, superannuation and other areas.

There continue to be various proposals and changes from global regulatory advisory and standard-setting bodies such as the International Association of Insurance Supervisors, the Basel Committee on Banking Supervision (**BCBS**), the International Organisation of Securities Commissions (**IOSCO**) and the Financial Stability Board (**FSB**) which if adopted, or followed, by domestic regulators may increase operational and capital costs or requirements.

Financial System Inquiry

The Final Report (**Report**) of the Financial System Inquiry (**Inquiry**) was released on 7 December 2014. The Report made 44 recommendations, including advising on the level of capital banks should hold and minimum standards of education for financial advisers. The Federal Government has accepted all except one of the recommendations.

The Federal Government and Australian regulators are progressively implementing the recommendations of the Inquiry that have been adopted or agreed to and as such it is difficult at this stage to judge the full impact of the Report's recommendations on the Suncorp Group and its operations.

APRA has released its assessment on the additional capital required for the Australian banking sector to have capital ratios that are considered 'unquestionably strong' and outlines APRA's conclusions with respect to the quantum and timing of capital increases that will be required for Australian authorised deposit-taking institutions (**ADIs**) to achieve unquestionably strong capital ratios.

For ADIs that use the internal ratings-based approach to credit risk, APRA has concluded that it is necessary to raise minimum capital requirements by around 150 basis points from current levels to achieve capital ratios that would be consistent with the goal of 'unquestionably strong'.

In the case of the four major Australian banks, APRA expects that the increased capital requirements will translate into the need for an increase in CET1 capital ratios, on average, of around 100 basis points above their December 2016 levels. In broad terms, that equates to a benchmark CET1 capital ratio, under the current capital adequacy framework, of at least 10.5 per cent.

For ADIs that use the standardised approach to credit risk, APRA has concluded that it is necessary to raise minimum capital requirements by approximately 50 basis points from current levels to achieve capital ratios that would be consistent with the goal of 'unquestionably strong'.

All ADIs are expected to meet the new benchmarks by 1 January 2020. Suncorp Bank currently uses the standardised approach to credit risk.

Australian Prudential Regulation Authority Level 3 Framework

APRA previously released a planned framework for the supervision of Level 3 conglomerate groups (the **Level 3 framework**), which will apply to the Group and imposes group-wide requirements in relation to governance, exposure management, risk management and capital adequacy. The new prudential standards for the Level 3 framework commenced on 1 July 2017; however, in respect of the timetable for implementation of the Level 3 framework it is not expected the capital requirements will come into force until 2019.

The Group remains well placed to implement the proposed requirements.

Basel III capital and liquidity reforms

APRA has continued to implement the prudential framework applicable to Australian banks under the Basel III capital and liquidity reforms established by the BCBS.

In respect of the Basel III reform proposals, the BCBS has advised that it is delaying its review of some of the elements of Basel III reform proposals. The Basel III reforms impose, or will impose, various (and in some cases higher) regulatory capital and liquidity requirements for Suncorp Bank than existed under previous regulatory regimes.

14. Environmental regulation

The *National Greenhouse and Energy Reporting Act 2007* (**NGER Act**) provides a national framework for corporations to report greenhouse gas emissions, energy consumption and production. Suncorp Group has reported annual reductions in emissions under the NGER Act since 2010-11.

The operational portfolio of the Group is managed in compliance with all relevant local and national laws and regulations in relation to environmental performance, management and reporting.

15. Indemnification and insurance of officers

Under the Constitution of the ultimate parent entity, each person who is or has been a director or officer of the Company is indemnified. The indemnity relates to all liabilities to another party (other than the Company or a related body corporate) that may arise in connection with the performance of their duties to the Company and its subsidiaries, except where the liability arises out of conduct involving a lack of good faith. The Constitution stipulates that SGL will meet the full amount of such liabilities, including costs and expenses incurred in successfully defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under the *Corporations Act 2001*.

SGL has also executed deeds of access, indemnity and insurance with directors and secretaries of the Company and its subsidiaries, and deeds of indemnity and insurance with directors of related bodies corporate and joint venture companies. Those deeds, which are subject to certain conditions and limitations, provide an indemnity to the full extent permitted by law for liabilities incurred by that person as an officer, including reasonable legal costs incurred in respect of certain legal proceedings and an entitlement to directors' and officers' liability insurance. The deeds containing access rights provide access to company records following the cessation of the officer's position with the relevant company.

During the 2016-17 financial year, SGL paid insurance premiums in respect of a directors' and officers' liability insurance contract. The contract insures each person who is or has been a director or officer (as defined in section 9 of the *Corporations Act 2001)* of the Company against certain liabilities arising in the course of their duties to the Company and its subsidiaries. The directors have not included details of the nature of the liabilities covered or the amount of the total premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

16. Corporate Governance Statement is online

During the 2016-17 financial year, Suncorp Group complied with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (3rd edition).

17. Non-audit services

During the year, KPMG, the Company's auditor, performed certain services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the financial year by the auditor and, having received the appropriate confirmations from the Audit Committee, is satisfied that the auditor's provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor.
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid or due and payable to the auditor of the Company, KPMG, and its related practices for non-audit services provided during the financial year are set out below:

SERVICES OTHER THAN STATUTORY AUDIT

	2017 $000	2016 $000
Audit-related fees (regulatory)		
APRA reporting	359	339
Australian financial services licences	21	21
Other regulatory compliance services	18	8
	398	368
Audit-related fees (non-regulatory)		
Other assurance services	722	1,435
Other services		

Tax compliance	12	12
	734	1,447
	1,132	**1,815**

18. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 46 and forms part of the Directors' Report for the financial year ended 30 June 2017.

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