Suncorp Group Limited and subsidiaries

ABN 66 145 290 124

Suncorp Group Limited Annual Report 2010/11

"Shannons understands motoring enthusiasts like me and I've been a customer for 25 years."

Tony Galea, President of FE-FC Holden Car Club of Victoria and Shannons customer for 25 years.

Shannons is part of the Suncorp Group.

One Company
Many Brands

SUNCORP GROUP

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Chairman's message

Dear Shareholder

The financial year ending 30 June 2011 was a year from which the Suncorp Group emerged as a far stronger organisation.

During that turbulent period, the Suncorp Group delivered the key strategic targets previously outlined to investment markets and shareholders – its balance sheet has been enhanced; the building blocks program has been substantially delivered; its business is now far simpler, operating under a non-operating holding company structure (NOHC); and the Suncorp Group now works together as one team under uniform employee terms and conditions.

Though there remains some way to go before the value within the Suncorp Group's unique portfolio of businesses is fully realised, the interests of shareholders have been significantly enhanced by these achievements.

The progress that had already been made in strengthening its business underpinned Suncorp's outstanding response to the succession of natural disasters in Australia and New Zealand, which commenced with the first earthquake in Christchurch in September 2010.

These events, which resulted in over 100,000 claims with a value of approximately $4 billion, tested the organisation as never before, and I could not be more proud of the manner in which Suncorp people responded. The combination of this response with the simultaneous implementation of fundamental operational transformation evidences the huge commitment and dedication of our employees.

From the insurance and banking teams, who were on the ground in flood and cyclone affected regions within 24 hours, to the employees who took insurance claims from home when call centres were inaccessible due to rising flood waters, there are countless examples of Suncorp people going far beyond the everyday to help our customers in their time of need.

The natural disasters have inevitably had their impact on the financial outcome for the year with net profit after tax of $453 million, down from $780 million in the 2010 year. The businesses have, however, continued to perform strongly. The underlying margin in General Insurance improved by 1.8% to 10.8%, and we are on track to deliver the promised 3% margin improvement at the conclusion of the 2012 financial year. Margins also improved in our Core Bank, while the run-off of the Non-core Bank continues to progress ahead of expectations. In Life Insurance, sales through the direct channel increased by 44% as we continue to leverage the Group customer base in Australia and New Zealand. Whilst the net profit is not what we had hoped at the beginning of the year, in the context of what ensued, these outcomes demonstrate the strength and resilience of the Suncorp Group.

The Board's confidence in the underlying performance of the business means that we are in a position to announce an ordinary dividend of 20 cents per share for the second half – bringing ordinary dividends for the full year to 35 cents per share. This is in line with the 2010 financial year, despite the impact of the natural hazard events on our net profit.

Nowhere is Suncorp's transformation more apparent than when considering the quantum and quality of capital supporting our balance sheet. We have concluded the 2011 financial year with the NOHC structure in place and capital levels well above the targets we set for the operating businesses and the Suncorp Group. The policy of the Board is that a prudent margin, depending on the circumstances, over and above those targets will still be retained, but shareholder capital surplus to those amounts will be returned to shareholders. In more stable circumstances, we would have anticipated a return of capital to shareholders on this occasion but, given the recent upheavals on global financial markets, the Board has decided to retain the full amount of our surplus of capital as a further protection against short-term uncertainty and volatility. This position will be reviewed as markets stabilise, and in doing so the Board will be mindful of the high balance of franking credits that we currently hold on behalf of shareholders.

The occurrence of natural disasters through the course of the year in Australia and New Zealand has challenged the insurance industry generally. Whilst we at Suncorp were proud of the manner in which the comprehensive flood cover in the majority of our brands responded to the circumstances, improvements are called for. Matters that must be addressed include the clarification of flood cover across the industry, the implementation and availability of comprehensive flood mapping, the introduction of effective flood mitigation and the application of comprehensive planning regulations that recognise and take into account unmitigated risks, whether of flood or earthquake. With the lessons of the past year learnt, the insurance industry is well placed to provide the protection its customers seek. Government intervention and participation in the industry would, however, be a backward and dangerous step.

This is my last report as Suncorp Chairman. The Suncorp of today bears little resemblance to the organisation that I joined in 1995 as a Director on the Metway Bank Board. Since then, the Suncorp Group has evolved from a Queensland-based and focused bank to a comprehensive financial services organisation with operations throughout Australia and New Zealand. Suncorp remains with its heart in Queensland, but is now one of Australia's largest listed companies, with each of its businesses playing an important part in the financial landscape of Australia and New Zealand. I am proud of what Suncorp has accomplished over the past 16 years. It has, on occasions, been severely challenged, but it has responded to those challenges with resilience and determination. Today, Suncorp Group is a strong organisation, with a well funded balance sheet, effective systems and processes, a dedicated team of employees and a committed customer base. It is well positioned for the future.

I will retire at the conclusion of this year's AGM, confident that Suncorp is in good hands, led by a strong Board and a dynamic executive team, with the right business model and strategy in place to deliver the returns that shareholders deserve.

Yours sincerely

John Story
Chairman
24 August 2011

Directors' Report

for the year ended 30 June 2011

The directors present their report together with the financial report of the **Suncorp Group**, being Suncorp Group Limited (the **Company**) and its subsidiaries for the financial year ended 30 June 2011 and the auditor's report thereon.

1. Directors

The directors of the Company at any time during or since the end of the financial year are set out below. All non-executive directors are members of the Nomination Committee.

Ilana R Atlas

BJuris (Hons) (WAust), LLB (Hons) (WAust), LLM (Syd)
Age 56
Non-executive director
Member Risk and Remuneration Committees

Director since January 2011. Ms Atlas is an experienced financial services and legal executive and has most recently held senior management positions at Westpac Banking Corporation including Group Executive, People and Group Secretary and General Counsel. Prior to joining Westpac, Ms Atlas was a partner at Mallesons Stephen Jaques, practising as a corporate lawyer, holding a number of managerial roles in the firm including Managing Partner and Executive Partner, People & Information.

Ms Atlas is a director of Coca-Cola Amatil Limited and Westfield Holdings Limited, Chairman of Bell Shakespeare, and is also Pro-Chancellor of the Australian National University.

Listed company directorships held since 1 July 2008

Company name	Appointed	Resigned
Coca-Cola Amatil Limited	24.02.11	
Suncorp-Metway Ltd	01.01.11	
Westfield Holdings Limited	25.05.11	

William J Bartlett

FCA, CPA, FCMA, CA (SA)
Age 62
Non-executive director
Member Audit and Remuneration Committees

Director since December 2010 and director of Suncorp-Metway Ltd since July 2003. Mr Bartlett is a director of Reinsurance Group of America Inc., GWA International Limited and Abacus Property Group. He has 35 years' experience in accounting and was a partner of Ernst & Young in Australia for 23 years, retiring on 30 June 2003.

Mr Bartlett also 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). He holds an honorary position on the board of the Bradman Foundation and the Bradman Museum. He is Chairman of the Council of Governors of the Cerebral Palsy Foundation.

Listed company directorships held since 1 July 2008

Company name	Appointed	Resigned
Abacus Property Group	14.02.07	
GWA International Limited	21.02.07	
Reinsurance Group of America Inc. (NYSE)	26.05.04	
Suncorp-Metway Ltd	01.07.03	

Former non-executive director

Dr Ian D Blackburne

MBA, PhD, BSc (First Class Hons)
Age 65
Non-executive director from 3 August 2000 to 31 August 2010
Chairman Risk Committee to 31 August 2010

Dr Blackburne is a director of Teekay Corporation and Chairman of Aristocrat Leisure Limited. He is the immediate past Chairman of CSR Limited, was formerly Chairman of the Australian Nuclear Science and Technology Organisation (July 2001–June 2006) and was formerly Managing Director of Caltex Australia Limited, having spent 25 years in the petroleum industry.

Listed company directorships held since 1 July 2008

Company name	Appointed	Resigned
CSR Limited	01.09.99	07.07.11
Symbion Health Limited	01.09.04	28.04.08
Teekay Corporation (NYSE)	08.09.00	
Aristocrat Leisure Limited	01.12.09	

Paula J Dwyer
BComm, FCA, FAICD, FFin
Age 50
Non-executive director
Chairman Audit Committee

Director since December 2010 and director of Suncorp-Metway Ltd since April 2007. Ms Dwyer was a director and chairman of the audit, risk and compliance committee of Promina Group Limited at the date of merger with the Suncorp Group. She is chairman of Tabcorp Holdings Limited and a director of Foster's Group Limited and Astro Japan Property Group Limited, where she is chairman of the audit, risk and compliance committee. Ms Dwyer is a member of the Takeovers Panel and Deputy Chairman of the Baker IDI Heart and Diabetes Research Institute.

Prior to becoming a company director in 2000, Ms Dwyer's professional experience was in securities, investment banking and chartered accounting, holding senior positions with Ord Minnett (now J P Morgan) and PricewaterhouseCoopers. She was formerly a director of David Jones Limited.

Listed company directorships held since 1 July 2008

Company name	Appointed	Resigned
Astro Japan Property Group Limited	19.02.05	
Foster's Group Limited	09.05.11	
Healthscope Limited	10.03.10	12.10.10
Suncorp-Metway Ltd	26.04.07	
Tabcorp Holdings Limited	30.08.05	

Stuart I Grimshaw
BCA (Vic, NZ), MBA, PMD (Harvard)
Age 50
Former non-executive director from 27 January 2010 to 23 August 2011
Member Audit and Risk Committees to 23 August 2011

Director since December 2010 and director of Suncorp-Metway Ltd since January 2010. He was appointed Chief Executive Officer at Caledonia Investments in January 2009. Mr Grimshaw has over 25 years' experience in the banking and financial services industry, both in Australia and abroad. He formerly held senior positions at Commonwealth Bank of Australia including Chief Financial Officer, Group Executive Premium Business and Group Executive Wealth Management.

While working overseas for the National Australia Bank, Mr Grimshaw held the position of Chief Executive Officer for both Yorkshire and Clydesdale Banks in the UK.

Mr Grimshaw is a director of Grays (Australia) Holdings Pty Ltd, a Senior Fellow of the Financial Services Institute of Australasia (FINSIA), member of the board of the Melbourne Football Club and President of Hockey Australia.

Listed company directorships held since 1 July 2008

Company name	Appointed	Resigned
Suncorp-Metway Ltd	27.01.10	23.08.11

Ewoud J Kulk
BEcon, FAICD
Age 65
Non-executive director
Chairman Risk Committee
Member Remuneration Committee

Director since December 2010 and director of Suncorp-Metway Ltd since March 2007. Mr Kulk was a director of Promina Group Limited at the date of merger with the Suncorp Group. He was Managing Director of the Australian General Insurance Group (1994–1998) and was Group Director Asia Pacific for Royal & Sun Alliance Insurance Group plc from March 1998 until his retirement in September 2003.

Mr Kulk is Chairman of AA Insurance Limited (NZ), director of the Westmead Millennium Institute, a member of the NSW Council of the Australian Institute of Company Directors and a past president of the Insurance Council of Australia. He has over 25 years' experience in the insurance industry.

Listed company directorships held since 1 July 2008

Company name	Appointed	Resigned
Suncorp-Metway Ltd	20.03.07	

Geoffrey T Ricketts
LLB (Hons)
Age 65
Non-executive director

Director since December 2010 and director of Suncorp-Metway Ltd since March 2007. Mr Ricketts was a director of Promina Group Limited at the date of merger with the Suncorp Group. He is Chairman of Lion Nathan National Foods Limited and a non-executive director of Spotless Group Limited, Todd Corporation Limited (NZ), Heartland New Zealand Limited and Heartland Building Society (NZ). Mr Ricketts is also a director of the Centre for Independent Studies Limited. He is a lawyer and a consultant for Russell McVeagh, Solicitors (NZ) and was a partner in that firm from 1973 until 2000.

He was formerly Chairman of Royal & Sun Alliance's New Zealand (R&SA NZ) operations having been a non-executive director of R&SA NZ for over ten years.

Listed company directorships held since 1 July 2008

Company name	Appointed	Resigned
Heartland New Zealand Limited (NZX)	05.01.11	
Lion Nathan Limited	13.06.88	Delisted 28.10.09
Spotless Group Limited	08.07.96	
Suncorp-Metway Ltd	20.03.07	
Taylors Group Limited (NZX)	13.01.92	18.12.09

1. Directors (continued)

Patrick J R Snowball
MA, Hon. LL.D
Age 61
Managing Director and Chief Executive Officer

Managing Director since December 2010 and Managing Director of Suncorp-Metway Ltd since joining the Group on 1 September 2009. Mr Snowball is an experienced financial services executive with extensive knowledge of the insurance industry, having overseen businesses in the UK, Ireland, Canada, India and Asia.

Mr Snowball joined the main board of Norwich Union plc in 1999 prior to the merger with CGU in 2000, having previously been part of the team delivering the realignment of Norwich Union after demutualisation in 1997. He re-joined the Aviva main board in 2001 as Executive Director for general insurance in the UK, Ireland, Canada, India and Asia. From 2005 to 2007, he was Group Executive Director, Aviva UK, where he was responsible for all UK operations, including its general and life insurance businesses. He worked with the Towergate group of companies in both a deputy chairman and chairman's roles and served as a non-executive director of Jardine Lloyd Thompson plc from 2008 to 2009. Before his business career, Mr Snowball served with the British Army including periods as Squadron Leader in the United Kingdom and West Germany.

Mr Snowball was a member of the Financial Services Authority (FSA) Practitioner Panel (UK) – representing Life and General Insurance – from 2006 to 2008.

Listed company directorships held since 1 July 2008

Company name	Appointed	Resigned
Jardine Lloyd Thompson Group Plc (LSE)	01.11.08	01.07.09
Suncorp-Metway Ltd	01.09.09	

John D Story
BA, LLB, FAICD
Age 65
Non-executive Chairman
Ex-officio member Audit, Risk and Remuneration Committees

Chairman since December 2010, Chairman of Suncorp-Metway Ltd since March 2003 and director since January 1995. Mr Story was a partner of the national law firm Corrs Chambers Westgarth for 36 years, retiring on 30 June 2006. He practised in the areas of corporate and commercial law and served as Queensland Managing Partner and National Chairman.

He is Chairman of Echo Entertainment Group Limited and a director of CSR Limited. Mr Story is Chancellor of The University of Queensland and is a Commissioner of the Public Service Commission (Queensland).

Listed company directorships held since 1 July 2008

Company name	Appointed	Resigned
CSR Limited	12.04.03	
Echo Entertainment Group	09.06.11	
Suncorp-Metway Ltd	24.01.95	
Tabcorp Holdings Limited	29.01.04	08.06.11

Dr Zygmunt E Switkowski
BSc (Hons), PhD, FAICD, FTSE
Age 63
Non-executive director
Chairman Remuneration Committee
Member Risk Committee

Director since December 2010 and director of Suncorp-Metway Ltd since September 2005. Dr Switkowski is Chairman of Opera Australia, a director of Tabcorp Holdings Limited, Oil Search Limited and Lynas Corporation Ltd and Chancellor of RMIT University.

He is the immediate past Chairman of the Australian Nuclear Science and Technology Organisation and previously Chief Executive Officer of Telstra Corporation Limited, Optus Communications Ltd and Kodak Australasia Pty Ltd.

Listed company directorships held since 1 July 2008

Company name	Appointed	Resigned
Healthscope Limited	19.01.06	12.10.10
Lynas Corporation Ltd	01.02.11	
Oil Search Limited	22.11.10	
Suncorp-Metway Ltd	19.09.05	
Tabcorp Holdings Limited	02.10.06	

Clayton Herbert and John Nesbitt acted as directors of the Company between the date of incorporation of the Company on 25 August 2010 and the date the Company applied for listing on the Australian Securities Exchange on 22 December 2010. During that period the Company was a subsidiary of Suncorp-Metway Ltd and did not conduct any business.

2. Company Secretary

Anna C Lenahan BA (Hons), MA (Psych) (Hons), LLB (Hons) was appointed to the position of Group General Counsel & Company Secretary in March 2011. Prior to this, Ms Lenahan was a Corporate Partner at the law firm Allens Arthur Robinson.

Clifford R Chuter B Bus was appointed to the position of company secretary in March 1997 following the merger of Metway Bank Limited, the Suncorp Group and QIDC. Prior to the merger, Mr Chuter held the role of company secretary with the Suncorp Group for ten years.

Darren C Solomon LLB was appointed joint company secretary in March 2010 and has over 20 years' legal and company secretarial experience within banking and financial services.

3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company [1] during the financial year ended 30 June 2011 were:

	BOARD OF DIRECTORS		AUDIT COMMITTEE		RISK COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
J D Story	13	13	6	6	7	7	4	4	3	3
P J R Snowball	13	13	6	6 [2]	7	6 [2]	4	4 [2]	–	–
I R Atlas	6	6	3	2	3	3	3	3	–	–
W J Bartlett	13	13	6	6	–	–	4	4	3	3
Dr I D Blackburne	2	2	–	–	2	2	–	–	2	2
P J Dwyer	13	13	6	6	–	–	–	–	3	3
S I Grimshaw	13	13	6	6	7	7	–	–	3	3
E J Kulk	13	13	–	–	7	7	4	4	3	3
G T Ricketts	13	13	–	–	–	–	–	–	3	3
Dr Z E Switkowski	13	13	–	–	7	7	4	4	3	3

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 On 7 January 2011, Suncorp Group Limited replaced Suncorp-Metway Ltd as the listed parent of the Suncorp Group as part of the non-operating holding company restructure. The meetings listed in the table are a combination of meetings conducted by directors of Suncorp-Metway Ltd over the period 1 July 2010 to 7 January 2011 and meetings conducted by directors of Suncorp Group Limited over the period from the Restructure to 30 June 2011.

2 The 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.

4. Remuneration Report

The Remuneration Report is set out on page 11 and forms part of the Directors' Report for the financial year ended 30 June 2011.

5. Principal activities

The principal activities of the Suncorp Group during the course of the year were the provision of general insurance, banking and life insurance, superannuation and funds management products and related services to the retail, corporate and commercial sectors in Australia and New Zealand.

During the year, the Suncorp Group disposed of some investments in entities operating funds management businesses. Further details are set out in Section 6.5. There were no other significant changes in the nature of the activities of the Suncorp Group during the year.

5.1 Suncorp Group's objectives

The Suncorp Group's 'Clarity of Purpose' outlines its core aspirations:

- To be 'One Company, Many Brands'; and
- To protect and grow the financial wellbeing of aspiring Australians and New Zealanders.

The focus is on simplicity and relentless execution to deliver on these aspirations, maximising value through four strategic priorities – cost, capital, customer and culture.

The Suncorp Group remains committed to delivering consistent, strong returns through its unique, diversified business model which consists of five operating divisions with end-to-end accountability, supported by a lean, strong corporate centre and a shared service function for common services and infrastructure.

6. Operating and financial review

6.1 Overview of the Suncorp Group

During the financial year, the Suncorp Group substantially completed its five key projects, known as the building blocks projects, on time and within budget. The successful completion of these projects has occurred during an unprecedented series of major events across Australia and New Zealand with the Suncorp Group managing more than 100,000 flood, cyclone, earthquake and other natural hazard claims at an estimated gross cost of around $4 billion.

Additionally, the Suncorp Group simplified its business by divesting non-core assets and implementing a Non-Operating Holding Company (NOHC) structure, improving transparency of capital and allowing more efficient use of group capital.

The Suncorp Group's profit after tax was $457 million, compared to $789 million in the prior financial year.

6. Operating and financial review (continued)

6.1 Overview of the Suncorp Group (continued)

The General Insurance profit after tax was $392 million. This result was achieved despite the unprecedented sequence of natural hazard events. Natural hazard claims were $325 million in excess of allowances and additional reinsurance protection costs were $232 million. Improvements in the management of long-tail claims and reduced claims handling costs have resulted in central estimate reserve releases that were $310 million, well above the Suncorp Group's normal expectations.

The Banking profit after tax was $84 million. The run-off of the non-core portfolio progressed ahead of expectations, with total lending reducing by $4.9 billion over the year. Impairment losses on banking loans and advances were down significantly, to $325 million from $479 million.

Life's profit after tax of $149 million was impacted by higher than expected claims costs, policy lapses and divested businesses.

Cash earnings per share (excluding divestments), which forms the basis of the Suncorp Group's dividend payout calculation, was 50 cents. The final dividend of 20 cents brings the total payout ratio to 70%, at the top end of the Suncorp Group's increased target payout ratio.

6.2 Financial position and capital structure

The Suncorp Group has a strong financial position with shareholders' equity at $14.0 billion. The Suncorp Group's capital position has strengthened during the year due to earnings, divestments and the run-off of the Bank's non-core portfolio. The balance sheet responded well to the multiple external events and the capital position remains strong, with the quality of capital significantly improved. Given the strength of the capital position, the Board has:

- redeemed subordinated debt of $520 million during the year
- increased the target dividend payout range to 50% to 70% of cash earnings excluding divestments
- declared a final dividend of 20 cents per share, bringing the total ordinary dividend for the year to the top of the increased target range of 50% to 70% of cash earnings per share excluding divestments
- redeemed $42 million in Reset Preference Shares for cash consideration following the NOHC transition in January 2011
- agreed to the exchange of $72 million in Reset Preference Shares for cash consideration in September 2011; and
- maintained a zero discount on the Dividend Reinvestment Plan (DRP) and neutralised the impact of the DRP on dividends by buying shares on-market.

At 30 June 2011, on a regulated entity basis, the General Insurance Minimum Capital Requirement (MCR) is 1.64 times the regulatory minimum and the Bank's Capital Adequacy Ratio (CAR) is 13.4%. The Suncorp Group's capital targets were recently revised by the Board to reflect a more appropriate risk appetite for the Suncorp Group in the current operating environment. As such, an amount of capital equivalent to 0.05 times the General Insurance MCR and 0.5% of the Bank CAR is now included in the target capital base of the Company. At the operating level, the target levels are now 1.45 times the General Insurance MCR and 12.5% of Bank CAR.

Based on current targets, the Suncorp Group holds surplus capital of around $1,245 million. The Board continues to believe it is prudent to retain a capital buffer while regulatory, economic and natural hazard uncertainties remain. Additionally, the Suncorp Group will seek to ensure that current credit ratings are maintained.

6.3 Impact of legislation and other external requirements

Significant legislative and regulatory changes as well as a number of Government enquiries that impact or could impact the Suncorp Group's operations continue to take place in Australia and New Zealand. After the severe floods in Australia during late 2010 and early 2011, the Federal Government established the National Disaster Insurance Review which is due to report to the Government by the end of 2011. The Review will concentrate on insurance arrangements for individuals and small businesses for damage and loss associated with floods and other natural disasters and will consider a number of specific issues including the extent of, and reasons for, non-insurance and under insurance for flood and other natural disasters and the ability of private insurance markets to offer adequate and affordable insurance cover.

The Federal Government is consulting on two proposals to provide greater clarity in respect of insurance policies, firstly, having a standard definition of 'flood' for use in insurance policies and secondly, having a short, simple key facts summary for insurance policies (initially for home building and contents policies) made available to consumers.

In early 2011 the Productivity Commission released a draft report called Disability Care and Support. The report recommends the establishment of a no fault national injury insurance scheme comprising a federation of current individual State and Territory compensation schemes which would provide fully funded care and support for all cases of catastrophic injury. The Commission has finalised its report and recommendations and has forwarded it to the Federal Government. The Federal Government has yet to respond to the recommendations in respect of a no fault national injury insurance scheme.

The Australian Prudential Regulation Authority (APRA) continues consultation on the harmonisation and review of general and life insurance capital standards and has stated it will consider the Basel III reforms in the context of its review of the general and life insurance capital standards.

The Basel III global capital and liquidity reforms for banks and other financial institutions were finalised by the Basel Committee on Banking Supervision. APRA will be working with industry through 2011 and 2012 to implement the reforms which are expected to be phased into effect, starting on 1 January 2013. The reforms are expected to impose new liquidity requirements on, and increase the required quality and quantity of capital held by, authorised deposit taking institutions (ADIs) in Australia.

In December 2010 the Federal Government announced its proposed reforms to promote a competitive and sustainable banking system. Key features of the announced reforms, called the Competitive and Sustainable Banking System, included prohibiting exit fees on new home loans from 1 July 2011, introducing a mandatory key facts sheet for new home loan customers, amending the *Competition and Consumer Act 2010* (previously called the *Trade Practices Act*) to give the Australian Competition and Consumer Commission power to prosecute price signalling, allowing ADIs to issue covered bonds and confirming the Financial Claims System (FCS) as a permanent feature of Australia's financial system. The legislation to ban home loan exit fees was passed in the first half of 2011, with effect from 1 July 2011.

Further amendments have been proposed to the *Competition and Consumer Act* prohibiting price signalling by ADIs.

The Federal Government is consulting on the FCS, on the amendments proposed to the scheme by the Council of Financial Regulators (comprising the Reserve Bank of Australia, APRA, the Australian Securities and Investments Commission and Federal Treasury) in respect of ADIs. Key recommendations include lowering the current $1 million cap to between $100,000 and $250,000 per depositor per ADI, from October 2011.

Consultation continues on the second stage of the national consumer credit lending reforms following on the implementation of the national consumer credit protection legislation in 2010. The legislation codified existing State Uniform Consumer Credit Codes, and introduced new licensing and responsible lending requirements and expanded regulation of credit to individuals for residential property investment purposes. The second stage consists of further disclosure requirements for consumer credit lenders in respect of home loans and credit cards (the home loan and credit card key fact sheet) and regulation in respect of reverse mortgages, consumer leases, National Credit Code enhancements and short-term small amount lending.

The Federal Government is working with industry on finalising legislation to establish a regulatory model under which ADIs will be allowed to issue covered bonds.

The Bank continues to work on and understand the impacts arising from the *Personal Property Securities Act 2009*, a national law which will regulate lending secured over personal property interests.

The report of the Cooper Review of Australia's superannuation system was released in December 2010. The Federal Government released the Stronger Super package which contained its response to the recommendations of the Cooper Review of Australia's superannuation system. The Government's response is expected to significantly impact superannuation in Australia with key proposals such as replacement of existing default funds by a new low cost simple superannuation product called MySuper.

The Federal Government also released an Information Pack called 'Future of Financial Advice 2011' in April 2011. The key reforms proposed include a prospective ban on up-front and trailing commissions and like payments for both individuals and group risk within superannuation from 1 July 2013 and the formulation of the proposed statutory 'best interests' duty which would require financial advisers to act in the best interests of their clients and give priority to their clients' interests and take reasonable steps to discharge that duty.

APRA continues consultation on the Level 3 supervision of conglomerates proposals and expects to finalise and implement those proposals by the second quarter of 2013.

National uniform occupational health and safety laws are expected to start in January 2012.

Federal Government consultation continues on the proposed reforms to Australia's privacy laws with proposed new privacy principles and credit reporting reforms having been released for public consultation.

All of these prudential, regulatory and other proposals or enquiries will or could impact the Suncorp Group's respective operations in banking, general and life insurance.

Outcomes of other Government or regulatory reviews, including into the taxation system and Australia's clearing and settlement systems, and various reforms proposed or already implemented for various Federal and State judicial systems, could also impact the Suncorp Group's operations.

The New Zealand regulatory environment is undergoing significant change with the introduction or implementation of key pieces of legislation including for the areas of insurance law, financial services and consumer law.

The *Insurance (Prudential Supervision) Act 2010* (IPSA) requires virtually all insurers to be licensed by the Reserve Bank of New Zealand. Insurers are required to hold a provisional licence by 7 March 2012 and a full licence by 7 September 2013. Applications have been submitted for the Suncorp Group's New Zealand businesses. Insurers will need to comply with the IPSA while operating under a provisional licence, to the extent provided for in that licence. Once fully licensed, they will need to comply with a number of ongoing requirements, as well as any conditions imposed on their licence by the Reserve Bank of New Zealand. The *Financial Service Providers (Registration and Dispute Resolution) Act 2008* (FSP Act) and the *Financial Advisers Act 2008* require compulsory registration and participation in a dispute resolution scheme and for financial advisors to adhere to minimum standards.

The ASX Corporate Governance Council (Council) introduced changes to the Corporate Governance Principles and Recommendations (2nd edition) on 30 June 2010. These included new recommendations relating to diversity that apply to a listed entity's first financial year commencing on or after 1 January 2011. Council encourages early implementation for the reporting year commencing 1 July 2010.

In early 2011, the Board approved the Equal Employment Opportunity (EEO) and Diversity Policy and also endorsed the Diversity Strategy Plan 2011–14, including measurable objectives to achieve gender diversity. The EEO and Diversity Policy is available on the Suncorp Group website.

6. Operating and financial review (continued)

6.4 Review of principal businesses

General Insurance recorded profit after tax of $392 million for the year.

The Insurance Trading Result (ITR) was $412 million, representing an ITR ratio of 6.6%. The headline ITR has reduced due to adverse natural hazard claims experience and additional reinsurance reinstatement costs, partially offset by long-tail claims reserve releases.

Gross Written Premium (GWP) increased by 3.6% on the prior year to $7.3 billion. Personal lines experienced solid premium growth in Home (11.5%) and Motor (4.4%). The Home premium rates have increased due to ongoing adverse natural hazard experience and higher reinsurance costs. Retention rates have remained strong despite these premium increases. Commercial Insurance GWP reduced 4% on a headline basis. After excluding exited product lines, GWP increased by 2.3%. Compulsory Third Party (CTP) GWP increased 3.2% despite a headline ceiling rate reduction in the Queensland scheme.

Net incurred claims totalled $4.75 billion. Short-tail claims expenses were impacted by a significant number of major weather events, resulting in net natural hazard claims being $325 million above the Suncorp Group's allowance. In long-tail claims, reserve releases of $296 million were primarily attributable to improved claims management and favourable claims experience.

Total operating expenses reduced, with acquisition expenses reduced by $51 million and other underwriting expenses increased $6 million. Investment income on insurance funds was $508 million. This included a benefit of $63 million from the narrowing of credit spreads and investment management performance. Investment returns on shareholder funds was $206 million.

The Suncorp Group's New Zealand operations were significantly impacted by multiple earthquakes in Christchurch during the year, however, the Suncorp Group's reinsurance program mitigated the impact of the earthquakes.

Banking recorded a profit after tax of $84 million.

The Bank continues to maintain separate core and non-core lending portfolios. The Bank's core lending portfolio is focused on relationship-based lending and deposit gathering in personal, small to medium enterprises and agribusiness banking. The focus of the non-core lending portfolio remains on responsible run-off of the portfolio to maximise the value of distributable capital that can be returned to the Suncorp Group. In 2011 the non-core portfolio continued to exceed run-off targets.

Gross banking loans, advances and other receivables reduced by 4.9% to $49.3 billion. In the personal lending customer segment, growth in housing loan receivables was strong in the first half but momentum slowed significantly following the impact of major weather events. The Bank's strong brand presence supported renewed growth towards the end of the year, however the Queensland mortgage market continues to be subdued.

During the year, housing loan receivables (including securitised assets), increased by 6.5% to $31.0 billion. Consumer lending decreased 1.9% over the year to $558 million as customers continued to focus on repaying existing debt. Business lending decreased 23.3% to $15.4 billion, with the run-off of the non-core portfolio partially offset by a 5.4% increase in the core business portfolio.

The Bank has maintained its strategy of match funding the non-core portfolio, taking a conservative approach to refinancing risk through to portfolio maturity. The Bank currently holds excess liquid assets over prudential requirements which have enabled the comfortable repayment of significant funding maturities during the year. The Bank is also well positioned to meet the impending regulatory changes being imposed on the industry to strengthen liquidity reserves.

Net interest income was $910 million, representing a decrease of 1.94%. The market competition for both deposits and lending remains strong and volatile wholesale funding markets provide a degree of caution in the outlook.

Operating expenses were $568 million, up from $546 million, reflecting continued investment in building the core franchise, and stimulating growth through branch expansion and increasing customer-facing staff. The cost-to-income ratio was 54.72%.

Bad debts expense for the financial year was $325 million, a reduction of 32.15%. Total provisions at 30 June 2011 were $564 million, representing a decrease of 16.07%. Improvement in market conditions across the sectors has allowed some resolution of accounts.

Life reported profit after tax of $149 million for the financial year, down 33%.

Life Risk profit after tax was $92 million down 30.8%. Challenging economic conditions and weakening consumer sentiment have had an impact on both lapse experience and claims. The impact on lapses has been partially mitigated through tighter management and implementation of a range of initiatives. Disability claims experience was unfavourable for both number of new claims and duration of claims, and the business continues to focus on claims duration management. Individual Life Risk new business is up 12.3% to $91 million, reflecting the strong momentum in the Independent Financial Advisor and direct distribution channels. New business sales were up 14.3% in the advisor channel to $56 million and up 43.8% to $23 million in the direct channels.

In Superannuation & Investments, funds under administration decreased by 37.5% on the prior year to $7.7 billion, following the divestment of the asset management businesses in Australia and New Zealand. Net profit after tax was $44 million, up 7.3% reflecting a stable underlying result.

Operating expenses decreased by 7.35% to $391 million, impacted by divested businesses offset by investment in growing the business and realising its strategic goals.

6.5 Significant changes in the state of affairs

The Suncorp Group has moved to the next stage in its strategic journey. The business has been stabilised and there is a solid foundation for growth. The focus is now on executing strategic plans, simplifying operations and demonstrating progress against commitments.

In January 2011, the Suncorp Group implemented a non-operating holding company structure following shareholder, regulatory and court approval. This established Suncorp Group Limited as the listed holding company of the Suncorp Group of companies and enabled the Suncorp Group's legal and operating structures to align. Suncorp-Metway Ltd (SML) no longer operates as the Suncorp Group's holding company, but continues as the Suncorp Group's Authorised Deposit Taking Institution (ADI).

A single enterprise agreement was agreed and commenced at the end of February 2011. This provides a consistent set of terms and conditions for the Suncorp Group's Australian employees.

The Suncorp Group sold its interests in Tyndall Investment Management Limited, Tyndall Investment Management New Zealand Limited and The New Zealand Guardian Trust Company Limited, thus supporting the Suncorp Group's strategic focus of driving growth in its core businesses.

6.6 Environmental regulation

The *Building Energy Efficiency Disclosure Act* was passed in 2010, and requires the Suncorp Group to obtain a Building Energy Efficiency Certificate (BEEC) for any building where the Suncorp Group plans to sell or sub-lease commercial office space above 2,000 square metres.

The *National Greenhouse and Energy Reporting Act 2007* came into effect in July 2008. The Suncorp Group will report emissions under this Act for the 2010/11 period. This is the first year the Suncorp Group will reach the threshold for reporting.

The operations of the Suncorp Group are not currently subject to any other particular and significant environmental regulation under any law of the Commonwealth of Australia or any of its states or territories. The Suncorp Group may, however, become subject to state environmental regulation when enforcing securities over land for the recovery of loans.

The Suncorp Group has not incurred any liability (including for rectification costs) under any environmental legislation.

7. Dividends

A fully franked 2011 interim dividend of $192 million (15 cents per share) was paid on 1 April 2011. A fully franked 2011 final dividend of $257 million (20 cents per share) has been declared by directors.

Further details of dividends provided for or paid are set out in note 4 to the consolidated financial statements.

8. Events subsequent to reporting date

On 22 July 2011, the Suncorp Group entered into a put and call option agreement with a potential purchaser in relation to the sale of the Suncorp Centre for $63 million.

The agreement provides the potential purchaser the right to exercise its call option to purchase the Suncorp Centre from the Suncorp Group; and the Suncorp Group the right to exercise its put option to sell the Suncorp Centre to the potential purchaser should the call option not be exercised within the agreed timeframe.

When either the call or put option is exercised, a sales contract will be entered into, with settlement expected late 2011. The Suncorp Centre is classified as held for sale as at 30 June 2011. Further details are set out in note 16 to the consolidated financial statements.

Other than as noted above, 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 Suncorp Group, the results of those operations, or the state of affairs of the Suncorp Group in future financial years.

9. Likely developments

Over the coming financial year, the Suncorp Group will continue with the run-off of the non-core banking portfolio, while focusing on the growth of its core banking, general insurance and life insurance operations. Over the next three years, growth is expected to be realised in three waves:

- from the significant changes made to claims and pricing in the general insurance business
- from investment in the bank franchise; and
- by building scale in the direct life insurance business.

Other than as disclosed elsewhere in this report, at the date of signing, the directors can make no comment on any likely developments in the Suncorp Group's operations in future financial years or the expected results of those operations.

10. Directors' interests

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the Company, as notified by the directors to the Australian Securities Exchange in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

	2011 Fully Paid Ordinary Shares
J Story	138,803
I Atlas	–
W Bartlett	26,968
P Dwyer	20,000
S Grimshaw	24,314
E Kulk	20,173
G Ricketts	23,654
P Snowball [1]	966,123
Dr Z Switkowski	201,599

1 Includes 900,000 shares held by the trustee of the Executive Performance Share Plan. Beneficial entitlement to those 900,000 shares remains subject to satisfaction of specified performance hurdles.

11. Indemnification and insurance of officers

Under the Company's Constitution, the Company indemnifies each person who is or has been a director or officer of the Company. 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 the Company 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*.

The Company 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 books following the cessation of the officer's position with the relevant company.

During the financial year ended 30 June 2011, the Company 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 executive officer (as defined in 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.

12. Non-audit services

During the year, KPMG, the Company's auditor, performed certain services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and, having received appropriate confirmations from the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor 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; and
- 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 year are set out below:

	2011 $'000	2010 $'000
Services other than statutory audit		
Audit-related fees (regulatory)		
APRA reporting	649	650
Risk management	72	74
Australian Financial Services Licences	108	126
Other regulatory compliance services	995	1,484
	1,824	2,334
Audit-related fees (non-regulatory)		
Other assurance services	944	706
	944	706
Non-audit related		
Other services	65	20
Tax fees		
Tax compliance	12	12
	2,845	3,072

13. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 35 and forms part of the directors' report for the financial year ended 30 June 2011.

14. Rounding off

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 Directors' Report and consolidated financial report have been rounded off to the nearest one million dollars unless otherwise stated.

Remuneration Report

Dear Shareholder

The directors of Suncorp Group Limited are pleased to present the Suncorp Group Remuneration Report for the year to 30 June 2011.

The Board is committed to clear and transparent disclosure of executive remuneration. To that end we've provided an overview, in addition to statutory reporting requirements, to outline the Suncorp Group's remuneration arrangements and their link to both short and long-term performance.

We also highlight the changes made to the Suncorp Group's remuneration framework to improve governance and ensure consistency with the Australian Prudential Regulatory Authority's remuneration standards.

The year to 30 June 2011 was eventful but it was also one from which the Suncorp Group emerged a far stronger organisation. Despite the effects on our businesses of the extraordinary sequence of natural disasters, and on our profits of the volume of insurance claims, the strength of our response to the challenges, combined with the successful delivery of a range of key strategic projects, provided the platform for the creation of sustained long-term value for shareholders, customers and employees.

We start the new operating year with good momentum with management focused upon unlocking the value within our businesses.

The Board will work to ensure that the Suncorp Group's remuneration framework reinforces progress towards this goal as well as achieving industry best practice.

John Story
Chairman of the Board

Ziggy Switkowski
Chairman, Remuneration Committee

24 August 2011

Remuneration Report

The Board presents the Suncorp Group Limited Remuneration Report for the financial year ended 30 June 2011 (2011). This report forms part of the Directors' Report. Sections 2 and 3 of the Remuneration Report have been audited in accordance with section 308(3C) of the *Corporations Act 2001*.

It should be noted that the Suncorp Group completed a restructure on 7 January 2011 which resulted in Suncorp Group Limited (the Company) replacing Suncorp-Metway Ltd (SML) as the ultimate parent of the Suncorp Group. As both the Company and SML are disclosing entities, separate Remuneration Reports are required.

The Remuneration Report is presented in the following three key sections:

1. Remuneration overview – unaudited

1.1 remuneration in 2011
1.2 remuneration earned by the Senior Leadership Team (SLT) (Group Chief Executive Officer (Group CEO) and Senior Executives reporting directly to the Group CEO) in office at 30 June 2011
1.3 changes in 2012

2. Remuneration – audited

2.1 the policy and framework for remunerating the SLT
2.2 Key Management Personnel (KMP), position titles and appointment dates
2.3 remuneration components
2.4 the link between remuneration and the Suncorp Group's performance
2.5 SLT remuneration disclosures
2.6 contractual arrangements

3. Non-executive director arrangements – audited

3.1 remuneration structure
3.2 Non-Executive Directors' Share Plan
3.3 non-executive directors' retirement benefits
3.4 remuneration disclosures

1. Remuneration overview – unaudited

Introduction

The Board is committed to clear and transparent disclosure of remuneration arrangements, and presenting this in a useful way for shareholders.

This overview provides key details regarding remuneration for 2011, and is included in addition to statutory reporting requirements to make it easier for shareholders to understand the Suncorp Group's remuneration arrangements.

Sections 2 and 3 of this Remuneration Report provide greater detail regarding remuneration structures and outcomes and have been prepared in accordance with the *Corporations Act 2001* and relevant accounting standards.

Remuneration strategy

The Suncorp Group's remuneration strategy is to attract, motivate and retain talented executives to deliver strong long term results for our stakeholders while encouraging prudent risk taking behaviour.

Remuneration structure

The structure of remuneration transforms the remuneration strategy into practice.

The total remuneration opportunity for the Group CEO and Senior Executives (together the Senior Leadership Team (SLT)) is made up of both fixed and 'at-risk' components. The at-risk component comprises both short-term incentives (STI) and long-term incentives (LTI) which have to satisfy performance and risk-related conditions. All these components together comprise the total remuneration opportunity.

For fixed remuneration the Suncorp Group broadly targets the median of the competitive market, while the at-risk component provides the opportunity for total remuneration to reach the upper end of the market spectrum. To achieve this, the proportion of at-risk remuneration, particularly STI, is intentionally positioned towards the upper end of the market enabling the Suncorp Group to appropriately reward superior performance.

STI awards are dependent upon performance against a balanced scorecard of financial and non-financial performance objectives. These scorecard components are weighted towards delivery of business strategy and achievement of annual objectives, in particular, with the aim of consistently creating value for the longer term. To ensure outcomes have been delivered within the Suncorp Group's risk appetite and to meet APRA's requirements, a percentage of the STI award is deferred for two years.

LTI opportunities are dependent upon Total Shareholder Return (TSR) performance relative to a peer comparator group (refer section 2.3). The purpose of LTI is to focus the SLT on the Suncorp Group's long-term business strategy, align SLT and shareholder interests and to support the creation of long-term shareholder value.

When the Board assesses performance it takes into account the quality of outcomes and the creation of long-term value for shareholders, customers and employees. The Board has discretion to adjust STI and LTI reward outcomes as necessary to reflect the quality of the operational improvements.

Discretion may be applied for:

- STI, at year end when assessing performance against scorecard objectives to determine STI awards, or at the end of the two-year deferral period, when determining if there are any risk management issues impacting the initial performance result assessed; and
- LTI, at any time prior to or at the final vesting of the performance rights and will take account of factors such as any material misstatements of financial results or individual instances of non-compliance with Suncorp Group policies.

1.1 Remuneration in 2011

The following drivers and actions have been considered in arriving at 2011 remuneration outcomes.

This year, the Suncorp Group has strengthened the business through the sound execution of its business plans. Since June 2010 the Suncorp Group has successfully delivered against the strategic growth plan outlined to the market in May 2010. This required completion of numerous significant projects including:

- the establishment of Suncorp Group Limited – the Non-Operating Holding Company (NOHC)
- delivery of the Building Blocks Program, including establishing single pricing and claims systems for both Motor and Home Insurance; consolidating finance and customer data systems and providing uniform employment terms and conditions through the One Team program; and
- improvements in the internal management of Suncorp Group capital.

The successful completion of these key projects has occurred during a once in a lifetime series of major events across Australia and New Zealand which impacted all operating businesses. During the year to June 2011, the Suncorp Group managed more than 100,000 flood, cyclone, earthquake and other natural hazard claims at an estimated gross cost of approximately $4 billion. Despite this, all operating businesses delivered solid profit contributions.

Changes introduced in response to the regulatory environment

The Board implemented a number of changes to the Suncorp Group's remuneration framework for the 2011 performance year. These changes were made to improve the governance of our remuneration practices and to align with the Australian Prudential Regulation Authority (APRA) Remuneration Standards released in November 2009. The key remuneration framework changes implemented were:

- a deferral of an element of short-term incentive remuneration for all executives and for other employees earning significant performance-based remuneration. The deferral is for two years, which is the period of time deemed appropriate for validating the integrity of scorecard results as assessed at the end of the performance period.
- a change in pay mix for executives to facilitate the introduction of deferred incentive remuneration payments, achieved by transferring a discounted portion of the LTI into STI. The amount transferred into STI was discounted by 50% to account for the increased potential for STI to vest relative to LTI vesting.
- the introduction of ex-post adjustment provisions for all deferred STI and LTI. Ex-post adjustment is the act of clawing back (reducing or eliminating) withheld remuneration where risk outcomes that are outside the Suncorp Group's risk appetite are uncovered during the deferral period; and
- a tightening of risk management practices:
  - functional oversight of performance planning, reviews and remuneration recommendations, for employees in risk and financial control roles; and
  - the incorporation of risk behaviour into remuneration arrangements achieved primarily through the balanced scorecard process and the Suncorp Group remuneration policy.

These changes continued to strengthen the linkages between risk management, performance and remuneration.

Other changes introduced

The re-testing provision in the LTI was removed for future grants. Previously executives could elect to extend the measurement period of LTI grants for two years. However, LTI grants made from 2011 (for awards granted in October 2010) onwards will have one performance test date. This improves the alignment with shareholders, and is in keeping with preferred market practice.

In addition, the peer comparator group against which TSR is measured for LTI grants was updated to exclude mining companies. This allows the Suncorp Group's performance to be compared against similar companies in terms of investment profile.

2011 Actual remuneration outcomes

Fixed remuneration

Fixed remuneration increases for the SLT were based on independent benchmarking against peer comparator groups, the intention being to keep executive remuneration in line with competitive market practices.

Short-term incentives (STI)

While the 2011 financial results were impacted by natural disasters, the achievement of non-financial performance objectives contributed to the long-term financial soundness of the Suncorp Group. To this end, the Board applied its discretion to ensure both balanced scorecard and remuneration outcomes appropriately reflect executive performance in building a sound platform for the Suncorp Group's long-term financial prospects.

In balancing financial and non-financial performance outcomes the Board has determined a 'below target' Suncorp Group STI pool.

Long-term incentives (LTI)

As the TSR performance hurdles were not met during 2011 there is no vesting of LTI. Current SLT members derive no value this year through the vesting of relevant performance rights.

1.2 Remuneration earned by the SLT in 2011

The table below is presented in order to provide greater visibility to shareholders of an executive's remuneration in the current year, as it can be difficult to determine this from statutory disclosures. The table is intended to provide a total view of actual remuneration in relation to 2011, and sets out:

- past remuneration awarded in previous years that vested during 2011 (left hand side). No deferred STI was due to vest in 2011 as deferral was introduced in 2010 for the Group CEO and in 2011 for the other SLT members. No LTI vested in 2011, as performance of the 2007 grant did not meet the hurdle at 30 September 2010 and participants therefore elected to re-test outcomes through extending the performance period for a further two years;
- fixed salary and STI earned and received in 2011 (middle section); and
- remuneration (LTI and deferred STI) awarded in 2011 that may be received in future years, subject to potential ex-post adjustment.

1. Remuneration overview – unaudited (continued)

1.2 Remuneration earned by the SLT in 2011 (continued)

It is important to note that the cash and other benefits earned by the SLT during the year as shown in the table below differ from the amounts shown in the full remuneration table in section 2.5, which is prepared in accordance with the *Corporations Act 2001* and *Accounting Standards*.

Further details of the terms and conditions of STI and LTI are set out in 'Remuneration components' in section 2.3.

Past, present and future remuneration of members of the SLT in office at 30 June 2011

PAST 'AT-RISK' REMUNERATION RECEIVED IN 2011[1]					REMUNERATION EARNED AND RECEIVED IN 2011			FUTURE 'AT-RISK' REMUNERATION AWARDED IN 2011[7]	
DEFERRED STI (CASH) VESTED IN 2011[2] $000	% VESTING[3]	LTI (EQUITY) VESTED IN 2011[4] $000	% VESTING[3]	SLT MEMBERS IN OFFICE AT 30 JUNE 2011	FIXED SALARY[5] $000	2011 STI (PAID IN 2011)[6] $000	TOTAL $000	2011 STI (DEFERRED AS CASH)[8] $000	LTI (EQUITY) GRANTED IN 2011[9] $000
Executive director and Group CEO									
–	–	–	–	Patrick Snowball	2,192	990	3,182	990	–
Senior Executives									
–	–	–	–	Anthony Day	672	455	1,127	245	650
–	–	–	–	Gary Dransfield[10]	62	39	101	21	–
–	–	–	–	David Foster	741	504	1,245	271	700
–	–	–	–	Mark Milliner	776	556	1,332	299	750
–	–	–	–	John Nesbitt	831	611	1,442	329	800
–	–	–	–	Amanda Revis[11]	473	387	860	208	535
–	–	–	–	Jeff Smith	776	614	1,390	331	750
–	–	–	–	Robert Stribling	602	436	1,038	235	600
–	–	–	–	Geoff Summerhayes	675	455	1,130	245	625

1 Past 'at-risk' remuneration represents LTI and deferred STI awarded in prior years that vested during 2011.

2 2010 was the first year of deferral of STI for the Group CEO, therefore no deferred STI was due to vest in 2011. 2011 is the first year of deferral for all other SLT members, therefore no deferred STI was due to vest in 2011. For further details of the STI program, refer to section 2.3.

3 This represents the percentage of the original award that vested during 2011. Awards that vest at 0% are forfeited.

4 LTI vested in 2011 represents the 2007 LTI grant which had an initial performance end date of 30 September 2010. The performance hurdle was not met at this time, and therefore participants elected to extend the performance period for a further two years. Therefore, the amounts shown above are nil given no LTI vested in 2011. For LTI grants made during 2011 onwards, the performance period ceases after three years and no re-testing is available. For further details of the LTI program, refer to section 2.3.

5 Fixed salary represents actual fixed remuneration received, including salary sacrificed benefits and employer superannuation.

6 For the Group CEO, this represents 50% of the total STI for 2011. For all other SLT members, this represents 65% of the total STI for 2011.

7 Future 'at-risk' remuneration represents awards made in 2011, which may conditionally vest in future years, and are not guaranteed.

8 2011 STI (deferred as cash) represents the deferred portion of total STI awarded for 2011. For the Group CEO, this represents 50% of the total STI for 2011. For all other SLT members, this represents 35% of the total STI for 2011. These awards are subject to potential ex-post adjustment.

9 LTI (equity) represents the value of performance rights granted under the LTI Executive Performance Share Plan (EPSP) during the year. For further details of the LTI program, refer to section 2.3.

10 Mr Dransfield was appointed (from within the Suncorp Group) to the position of CEO Vero New Zealand on 23 May 2011. Remuneration details reported within this table reflect Mr Dransfield's remuneration as a KMP since 23 May 2011. Mr Dransfield was not granted any LTI while he held the position of CEO Vero New Zealand.

11 Ms Revis was appointed to the position of Group Executive, Human Resources on 16 August 2010. Remuneration details reported within this table reflect Ms Revis' remuneration as a KMP since 16 August 2010.

1.3 Changes in 2012

No major changes to remuneration structures are anticipated in the coming year. The Board will however continue to ensure remuneration structures are effective in supporting the business strategy and remain aligned to the interests of our stakeholders.

2. Remuneration – audited

2.1 Remuneration policy and framework

Remuneration policy

The Suncorp Group's remuneration policy sets out the key objectives of its remuneration strategy. These are to:

– facilitate remuneration structures aligned to the business strategy

– provide competitive remuneration linked to appropriate internal and external benchmarks

– provide fair and appropriate remuneration outcomes having regard to the performance of both the Suncorp Group and the individual; and

– ensure that remuneration arrangements for all employees encourage behaviour that supports the Suncorp Group's long-term financial soundness and risk management framework.

The Suncorp Group's risk management practices are governed by an integrated framework including defined risk appetites, Suncorp Group Policies (including the remuneration policy) and the use of personal scorecards that include specific measures of performance tied to the relevant risk appetite and risk behaviours. The performance of each Business Unit (and individual) is reviewed and measured with reference to how risk is managed.

This section explains how the key objectives of the remuneration strategy are achieved in practice.

Remuneration governance framework

The Suncorp Group's remuneration policy aims to ensure that remuneration structures for all employees are equitable and are strongly linked to the long-term interests of the Suncorp Group. While the Board has overall responsibility for employee remuneration structures, the Board relies on its Remuneration Committee to assist in remuneration-related matters and takes account of the advice of the Group CEO and other members of management.

The following diagram details the remuneration governance framework as it relates to the SLT.

BOARD

Maintains overall responsibility and accountability for remuneration policy, as well as the principles and processes which give effect to that policy.

Approves, having regard to recommendations of the Remuneration Committee:
– the remuneration of the Group CEO
– remuneration arrangements for the non-executive directors
– remuneration arrangements, levels of, appointments to, and terminations from, Senior Executive positions reporting to the Group CEO
– all awards made under the long-term incentive plan
– the Suncorp Group's STI pool; and
– the annual increase pool for the Suncorp Group's total employment cost.

INSTRUCT AND OVERSEE

INFORM AND RECOMMEND

REMUNERATION COMMITTEE

Recommends to the Board:
– the remuneration of the Group CEO, including performance targets
– remuneration arrangements for non-executive directors
– appointments to, and terminations from, Senior Executive positions reporting to the Group CEO
– remuneration and human resource policy matters; and
– the structure and operation of equity-based plans.

Endorses and recommends to the Board based on recommendations from the Group CEO:
– the remuneration arrangements and levels of Senior Executives
– the Suncorp Group's STI pool; and
– the annual increase pool for the Suncorp Group's total employment cost.

ENGAGE AND OVERSEE

SUPPORT AND ADVISE

EXTERNAL CONSULTANTS

Support the Remuneration Committee by providing **independent advice** on matters including:
– benchmarking data and market practice among other listed companies;
– proposed changes to the Suncorp Group's remuneration policy, structures and practices;
– legal and regulatory issues that impact on remuneration arrangements for directors and Senior Executives; and
– structuring alternatives for short and long-term incentive plans.

INSTRUCT AND OVERSEE

INFORM AND RECOMMEND

GROUP CEO

Recommends to the Remuneration Committee:
– the remuneration arrangements and levels of Senior Executives
– the Suncorp Group's STI pool; and
– the annual increase pool for the Suncorp Group's total employment cost.

Approves:
– the performance targets of Senior Executives for the variable component of their remuneration; and
– the remuneration and performance of Senior Executives.

2. Remuneration – audited (continued)

2.1 Remuneration policy and framework (continued)

Risk governance arrangements

As detailed in the Suncorp Group's remuneration policy, the following risk governance arrangements apply to all employees as relevant:

– the Suncorp Group STI pool is based on Suncorp Group performance, inclusive of risk management, as assessed by the Board

– risk management is incorporated into scorecards for all employees

– performance-based remuneration for all employees is subject to deferral based on predefined thresholds

– both deferred STI and LTI are subject to potential ex-post adjustment based on the Suncorp Group's ex-post adjustment provisions and at the discretion of the Board; and

– remuneration decisions for employees working in risk and financial control roles are governed by a separate process which enables the performance of employees in these roles to be assessed independently of the business areas they oversee.

Remuneration Committee

The Remuneration Committee comprises four independent non-executive directors and is chaired by Dr Zygmunt Switkowski. Three members of the Committee are also members of the Risk Committee, one of whom is the Risk Committee Chairman.

Further information on the Remuneration Committee's role, responsibilities and membership can be found in the Corporate Governance Statement.

Use of remuneration consultants

The Remuneration Committee engages independent external remuneration consultants to provide advice and market-related information as required.

In 2011 the Remuneration Committee engaged PwC to provide advice to the Remuneration Committee and the Board on matters relating to remuneration benchmarking, proposed changes to the Suncorp Group's remuneration structures and practices and on specific matters such as remuneration policy.

The requirement for the services of an independent consultant to the Remuneration Committee will be assessed annually in the context of the issues to be addressed by the Remuneration Committee.

Linking remuneration to business objectives

The diagram below illustrates how SLT remuneration is structured to support the Suncorp Group's strategic objective of achieving sustainable business growth.

Strategic business objective	**Sustainable business growth**		
Supported by remuneration drivers	**Attract and retain talented executives**	**Motivate superior performance**	**Ensure appropriate risk alignment**
Reinforced through remuneration structures	1. Fixed remuneration levels are aligned to the median of a defined talent market. 2. Rewards of up to 237.5% of fixed salary are available through the variable 'at-risk' components of remuneration (STI and LTI).	1. Significant component of remuneration is 'at-risk' under both STI and LTI plans. 2. STI is subject to financial and non-financial performance measures with some portion now deferred. 3. Vesting of the LTI award is dependent on the Company's relative total shareholder return (TSR) performance against a peer group. If TSR performance is below the median of the peer group, the LTI does not vest and is forfeited.	1. SLT cannot hedge equity instruments that are unvested or subject to restrictions, for example unvested performance rights held in the Executive Performance Share Plan. 2. Remuneration policy amended in 2010 to provide a governance framework for the structure and operation of remuneration systems, within the context of the Suncorp Group's long-term financial soundness and risk management framework.

2.2 Key Management Personnel

Key Management Personnel (KMP) are those persons who have authority and responsibility for planning, directing and controlling the activities of the Suncorp Group, directly and indirectly. KMP include all directors of the Company (executive and non-executive) as well as Senior Executives who report to the Group CEO.

Disclosures in this Remuneration Report for the period prior to 7 January 2011 (the date of restructure which resulted in Suncorp Group Limited (the Company) replacing Suncorp-Metway Ltd (SML) as the ultimate parent of the Suncorp Group) are in respect of the SML Group. However since the KMP did not change at the time of the restructure, and as the same remuneration structures and policies continue to apply, the Remuneration Reports for both the Company and SML each cover the same period (year ended 30 June 2011) and contain identical information. The comparative information presented is consistent with the disclosures made in the Remuneration Report of SML for the year ended 30 June 2010.

The following persons were KMP of the Suncorp Group during 2011:

NAME	POSITION	CHANGES
Non-executive directors in office as at 30 June 2011		
John Story (Chairman)	Non-executive Chairman	
Ilana Atlas	Non-executive director	Appointed 1 January 2011
William Bartlett	Non-executive director	
Paula Dwyer	Non-executive director	
Stuart Grimshaw	Non-executive director	Left office 23 August 2011
Ewoud Kulk	Non-executive director	
Geoffrey Ricketts	Non-executive director	
Dr Zygmunt Switkowski	Non-executive director	
Executive director		
Patrick Snowball	Group Chief Executive Officer	
Senior Executives in office as at 30 June 2011		
Anthony Day	Chief Executive Officer, Commercial Insurance	
Gary Dransfield	Chief Executive Officer, Vero New Zealand	Appointed 23 May 2011
David Foster	Chief Executive Officer, Suncorp Bank	
Mark Milliner	Chief Executive Officer, Personal Insurance	
John Nesbitt	Group Chief Financial Officer	
Amanda Revis	Group Executive, Human Resources	Appointed 16 August 2010
Jeff Smith	Chief Executive Officer, Suncorp Business Services	
Robert Stribling	Group Chief Risk Officer	
Geoff Summerhayes	Chief Executive Officer, Suncorp Life	
Former non-executive directors in 2011		
Dr Ian Blackburne	Non-executive director	Left office 31 August 2010
Former executive directors in 2011[1]		
John Nesbitt	Executive Director, Suncorp Group Limited	Appointed 25 August 2010 Left office 22 December 2010
Clayton Herbert	Executive Director, Suncorp Group Limited	Appointed 25 August 2010 Left office 22 December 2010
Former Senior Executives in 2011		
Roger Bell	Chief Executive Officer, Vero New Zealand	Left office 22 May 2011
Dharma Chandran	Acting Group Executive, Human Resources	Left office 15 August 2010

1 For the period from incorporation until 22 December 2010, Mr Nesbitt and Mr Herbert were directors of Suncorp Group Limited. During this time, the Company was dormant. Mr Nesbitt and Mr Herbert did not receive any remuneration for their services as directors during this period.

2. Remuneration – audited (continued)

2.3 Remuneration components

Total remuneration for the SLT is both of a fixed and variable nature, as summarised below.

Fixed remuneration

- consists of two components, being:
  - base remuneration, including base salary, salary sacrificed benefits and other fringe benefits; and
  - superannuation.

Variable remuneration

- consists of two components, being:
  - short-term incentives (STI); and
  - long-term incentives (LTI).
- is remuneration that is considered to be 'at-risk'; and
- is linked to both the individual's and the Suncorp Group's performance.

The table below provides a summary of each component of remuneration and how that component links to performance.

The total remuneration provided to SLT members is evaluated on an annual basis against peer comparator groups such as the ASX 100 Index and ASX 50 Index separately, and custom groups therein based on the industries in which the Suncorp Group operates and competes for talent and the size and scope of the Suncorp Group business (note that the peer comparator groups used to evaluate remuneration are different from the Peer Comparator Group used to test LTI performance (refer 'The performance hurdle – total shareholder return' section below)).

		REMUNERATION COMPONENT	VEHICLE	PURPOSE
FIXED REMUNERATION	1	Base remuneration	Base salary, salary sacrificed benefits and other benefits.	Positioned at a market-competitive level that reflects the size and complexity of the role, individual responsibilities, individual performance, experience and skills.
FIXED REMUNERATION	2	Superannuation	Superannuation paid at a rate of 9% of the benefits base or the maximum contribution base set out in the *Superannuation Guarantee Act*, whichever is the lesser[1].	Superannuation contributions paid according to statutory requirements.
VARIABLE REMUNERATION	3	Short-term incentives (STI)	Annual 'at-risk' component of remuneration, subject to Suncorp Group and individual performance. A portion of all STI is deferred for two years and is subject to potential ex-post adjustment at the end of the deferral period. Typically paid in cash, unless the SLT member nominates to have all or part of their award paid into superannuation or the Company's shares (subject to relevant limits).	Rewards SLT members for their contribution to the Suncorp Group and business unit outcomes.
VARIABLE REMUNERATION	4	Long-term incentives (LTI)	Performance rights granted that vest subject to performance hurdles being met. Long-term 'at-risk' component of remuneration, generally assessed over three years, and subject to potential ex-post adjustment at the end of the vesting period[2].	Rewards SLT members for their contribution to the creation of shareholder value over the longer term. Vesting of LTI is dependent on the Company's relative total shareholder return against a peer group of ASX-listed companies.

1 Different legislation and approach to superannuation applies within New Zealand.

2 For LTI grants for 2010 and prior, participants had the option to extend the performance period to five years. From 2011 the performance period is set at three years.

Fixed remuneration

Fixed remuneration is reviewed each year in line with the Suncorp Group's remuneration policy, competitor practices and other business and role-critical factors. As discussed in section 2.1, external remuneration consultants support the Remuneration Committee in assessing market practice to ensure fixed remuneration is competitive.

Increases to fixed remuneration were delivered during 2011 to reflect competitive market practice.

Short-term incentives (STI)

The Suncorp Group operates an annual STI program designed to reward the contribution of SLT members in line with Suncorp Group and individual performance. For 2011, the Senior Executive target STI opportunity is typically positioned at an amount equivalent to 125% of fixed remuneration, with a maximum STI opportunity equivalent to 187.5% of fixed remuneration[1]. The Group CEO target STI opportunity is set at 100% of fixed remuneration, with a maximum STI opportunity equivalent to 150% of fixed remuneration. A portion of STI for SLT members is deferred for two years (refer 'Incentive deferral' section below).

The size of the Suncorp Group's STI pool available for distribution each year is determined by the Remuneration Committee, relative to financial and non-financial performance outcomes. A key measure of financial performance is determined by the Suncorp Group's achievement against agreed financial targets set by the Board each year. The quality of the financial result, including factors such as the current economic environment, is also taken into account when determining the size of the Suncorp Group's STI pool.

Performance objectives

Individual performance is assessed against agreed performance objectives and targets using a balanced scorecard approach. Financial and non-financial objectives, including risk management as a separate category, are weighted and reflect the performance focus of both the Suncorp Group and specific Business Units to support the overall business strategy.

How is performance assessed?

The Group CEO and the Remuneration Committee assess each Senior Executive's performance at the end of the financial year against the Suncorp Group and Business Unit scorecards, assessing actual outcomes relative to the agreed targets. The overall performance assessment reflects both Suncorp Group and Business Unit performance.

The Board believes that the Suncorp Group and Business Unit focus, the key performance measures, targets and their relative weightings, combine to effectively motivate SLT members.

Achievement of revenue targets is expected to be in line with strategic plans approved by the Board (as amended from time to time) and in a manner consistent with the Board's expressed risk appetite.

Examples of key performance measures included within the balanced scorecard for the SLT are set out in the table below.

Suncorp Group performance objectives **Weighting:** – **Group CEO: 100%** – **Senior Executives: 60%**	1. Profit and financials: targeted profit after tax and improvement in shareholder returns (return on equity) 2. Risk management: manage risk levels within agreed parameters 3. Customer: improve external confidence in the Suncorp Group 4. People: maintain a highly respected and engaged team 5. Key Company strategic deliverables: implementation of key strategic projects/initiatives to drive business improvements
Business Unit performance objectives **Weighting:** – **Senior Executives: 30%**	1. Profit and financials: targeted profit after tax and improve shareholder returns 2. Risk management: drive a positive risk culture and risk governance framework and manage risk levels within agreed parameters 3. Customer: achieve customer retention, advocacy and grow customer base 4. People: maintain a highly engaged team 5. Key Business Unit strategic deliverables: implementation of key strategic projects/initiatives to drive business improvements
Individual performance objectives – **Senior Executives: 10%**	Dependent on contribution to the team and demonstration of the Suncorp Group Values: – Honesty – Trust – Courage – Caring – Fairness – Respect

1 The STI target opportunity for Jeff Smith, CEO Suncorp Business Services, is contractually set at 138% of fixed remuneration. His maximum is in line with other Senior Executives (187.5%).

2. Remuneration – audited (continued)

2.3 Remuneration components (continued)

STI incentive deferral

Incentive deferral applies to the SLT based on a predefined threshold for all performance-based remuneration.

By deferring a portion of incentives, the alignment of incentive payments to the long-term interests of the Suncorp Group and to shareholder interests are strengthened.

Incentive deferral applies for the Group CEO with 50% of all incentives awarded deferred as cash for two years. Incentive deferral has now been introduced for Senior Executives from 2011; as a response to the APRA Remuneration Standards, 35% of all incentives awarded are deferred as cash for two years. For Senior Executives, interest is payable on the deferred amount when vested.

During the deferral period, the Board will seek to understand the long-term impacts of decisions made and actions taken during the performance year. Significant adverse outcomes may give grounds for the Board to apply its discretion to adjust the original deferred incentive allocation downwards, to zero if necessary.

In the event of resignation, redundancy or retirement, the deferred incentive portion will generally vest after the termination date in accordance with the deferral period and will be subject to potential ex-post adjustment at the end of the deferral period.

Long-term incentives (LTI)

LTI delivered in the form of performance rights are designed to recognise the contribution of the SLT to the creation of shareholder value over the long term. LTI are offered to SLT members as they have a direct impact on the Suncorp Group's long-term performance. LTI are provided through the EPSP. LTI recipients will only derive value from their LTI grants if challenging performance hurdles are met.

What is a performance right?

A performance right entitles a participant to one fully paid ordinary share (or under limited circumstances, a cash payment, in lieu of an allocation of ordinary shares) at no cost. This entitlement arises at a set future point in time, provided specific performance hurdles are met.

How are performance rights allocated?

SLT members are offered performance rights at Board discretion.

The value of LTI to be granted to the Senior Executives on 1 October 2011 is to be based on 50% of fixed remuneration, down from prior years' grants which were based on 100% of fixed remuneration. This is in line with the change in variable remuneration mix being the reallocation of a portion of LTI to STI which is now also subject to deferral.

To determine the number of performance rights granted, the value of the LTI is divided by the five-day Volume Weighted Average Price (VWAP) of one ordinary share over the five days preceding the date of grant.

When offers are made, the shares are bought on market to avoid any dilutionary impact that issuing new ordinary shares would have on the share price. The shares are acquired by the EPSP trustee and held in trust during the vesting period. After vesting, the shares remain held by the trustee until the Senior Executive applies to the Board to remove them or until ten years have passed.

The performance hurdle – total shareholder return

Performance is measured by ranking the Company's total shareholder return (TSR) against a pre-determined group of peer companies (Peer Comparator Group). TSR (expressed as a percentage) is the growth in share price, plus dividends reinvested over the relevant performance period. TSR represents the total return of all cash flows to an investor; it combines share price appreciation (capital gain) as well as dividends paid, to show the total return to the shareholder during the holding period of an investment. TSR will vary over time, but the relative position reflects the market perception of overall performance relative to a Peer Comparator Group.

The ranking of the Company's TSR determines the extent to which performance rights vest.

The Peer Comparator Group chosen for relative TSR performance assessment is the top 50 ASX-listed companies in the S&P/ASX 100 Index, excluding listed property trusts and mining companies. The TSR performance measure is chosen on the basis that:

– it offers a relevant indicator of measuring increases in shareholder value by comparing the Company's performance against similar companies in terms of size and investment profile
– it provides alignment between comparative shareholder return and reward for executives and a relative, market-based performance measure against similar comparator companies
– it enables executives to share a common target to encourage performance; and
– it provides a direct link between SLT reward and shareholder return over the long term and minimises the impact market cycles may have.

LTI vesting schedule

The extent to which performance rights will vest, and shares will be allocated, is subject to performance conditions based on the Company's TSR measure of performance over the relevant three-year performance period.

The SLT will not derive any value from the LTI component of their remuneration unless the Company's performance is greater than the median performance of the Peer Comparator Group. Performance rights vest in accordance with the LTI vesting schedule represented in the table below:

PERFORMANCE MEASURE: RELATIVE TSR PERFORMANCE OUTCOME	PERCENTAGE OF AWARD THAT WILL VEST
Below the 50th percentile (below median performance)	0%
At the 50th percentile (median performance)	50%
Between the 50th and 75th percentiles	50% plus 2% for each full 1% increase in the Company's ranking against the Peer Comparator Group
At or above the 75th percentile	100%

Performance period

The performance period begins on the date the award is made and extends for a period of three years. The Board determined that from 2011 onwards there would be no provision for re-testing performance conditions in any future LTI grants, to align with general market practice and institutional investor expectation.

The table below outlines the performance period for grants made from 2011 onwards.

AWARDS MADE (YEAR 0)	END OF PERFORMANCE PERIOD (YEAR 3)
The performance period commences on the date of the award	The vesting date occurs. At the end of the performance period, the TSR outcome is applied to unvested performance rights. If median TSR performance is met or exceeded, the relevant proportion of performance rights are converted to shares (according to the vesting schedule in the table above). If median TSR performance is not met and the LTI does not vest, the performance rights are forfeited.

It should be noted that under limited circumstances, the EPSP rules allow the Board the discretion to satisfy a participant's entitlement upon vesting through a cash payment, in lieu of an allocation of ordinary shares.

For grants made during the year ended 30 June 2010 (i.e. for awards granted in October 2009) and prior, the SLT had the option to extend the performance period for a further two years at the end of the initial three years, as outlined in the table below.

YEAR 0 AWARDS MADE	END YEAR 3 INITIAL PERIOD	END YEAR 3 TO END YEAR 5 2-YEAR RE-TEST PERIOD	END YEAR 5
The performance period commences on the date of the award.	The first potential vesting date occurs. If performance measures are met, the executive can elect to: 1. exercise performance rights and convert them to shares; OR 2. lock the performance rights in for an extended two year re-test period. If performance measures are not met and the LTI does not vest, the executive can elect to: 1. forfeit any future right to the performance right; OR 2. lock the performance rights in for an extended two year re-test period.	Where an executive elects to extend the measurement period for two years, TSR is measured every six months between the measurement dates.	At the end of the re-test period, the most favourable TSR outcome from either the initial period or during the re-test period is applied to unvested performance rights. After the re-test period, no further elections to re-test are available, and performance rights that do not vest are forfeited.

TSR measurement

TSR performance is monitored by an independent expert at key points throughout the LTI life cycle as outlined in the table below. TSR performance may also be measured upon termination of an individual's contract of employment where the member of the SLT holds unvested performance rights when they cease employment. Further details of how LTI are treated on termination are set out within the 'Treatment of LTI on termination' section below.

Dividends

The EPSP trustee manages any dividends that may be received during the time that the underlying shares are held in trust. If an individual's performance rights vest and shares are allocated to the individual, a payment equal to the dividends received by the trustee with respect to the underlying shares is paid at the same time that the shares are allocated to the individual (less applicable taxes that have been paid by the EPSP trustee with respect to the dividends).

Treatment of LTI on termination

If a SLT member ceases to be an employee of the Suncorp Group for a 'qualifying reason' (meaning death, total and permanent disablement, retirement, redundancy as a result of a restructure within the Suncorp Group, change of control of the Company or another reason as determined by the Board), any performance rights which have not vested remain 'on foot' and will vest subject to the terms of the grant (including in relation to performance conditions and lapse or forfeiture conditions), except that any allocation made will be pro-rated to reflect the proportion of the performance period actually worked, unless otherwise determined by the Board.

If a SLT member ceases to be an employee of the Suncorp Group other than as a result of a 'qualifying reason' (as defined above), any performance rights held, which have not vested, automatically lapse. The Board has ultimate discretion over whether to allow the vesting of any performance rights. Where the Board exercises its discretion to allow unvested shares to vest at the termination date, performance is measured at the termination date. Where vesting occurs, the final award size is pro-rated for the period from the grant date to the date of termination.

2. Remuneration – audited (continued)

2.3 Remuneration components (continued)

Group CEO's LTI terms

The performance period and some other minor terms of the Group CEO's LTI award are different from the Senior Executives' awards. Details of these differences are set out in section 2.6 of this report.

Hedging prohibition

The Suncorp Group's securities dealing policy extends to dealing in a financial product which operates to limit the economic risk of a holding in the Company's securities, including unvested EPSP performance rights.

Dealing in these types of financial products is prohibited unless the transaction has been approved by either the Chairman (for directors) or the Group CEO (for Senior Executives) and the security is not an unvested EPSP performance right. All KMPs are reminded of this policy at least twice per year, usually in the month prior to the release of the Suncorp Group's annual and half-year financial results, and are required to declare on an annual basis that they have not hedged any unvested equity exposure to the Suncorp Group.

While performance rights remain unvested, SLT members do not have an entitlement to the shares underlying the performance rights and the underlying shares are held in the name of the EPSP trustee. During this time the underlying shares therefore cannot be accessed by the individual.

Once performance rights have fully vested under the EPSP, the Chairman or Group CEO (as appropriate) must be notified when the underlying shares are withdrawn from the EPSP, including details of how the individual intends to deal in the shares once they are released.

2.4 Remuneration and the link to performance

Remuneration is structured to motivate performance as well as to attract and retain talented employees. The portion of 'at-risk' variable remuneration received by the SLT is dependent on achieving superior performance (both at an individual and Suncorp Group level) and generating value for shareholders.

In 2011 the Suncorp Group has not achieved target financial performance and the value of STI to be delivered has therefore been reduced. In respect of LTI, the performance hurdle has not been met therefore no value will be delivered to the SLT in office at 30 June 2011.

Suncorp Group performance

The operating and financial review in section 6 of the Directors' Report provides an analysis of the Suncorp Group's performance in 2011.

The table below includes a number of indices reflecting the Suncorp Group's[1] performance over the five years to 30 June 2011. The intention is to provide an overall view of the Suncorp Group's performance (the TSR in the table does not relate to the Suncorp Group's LTI plan which is dependent on relative TSR performance against a peer group of ASX-listed companies).

	SHARE PERFORMANCE				EARNINGS PERFORMANCE	
YEAR ENDED 30 JUNE	CLOSING SHARE PRICE[2] ($)	DIVIDEND P/SHARE (CENTS)	TSR[3]	BASIC EPS (CENTS)	PROFIT FOR THE YEAR ($M)	RETURN ON EQUITY FOR THE YEAR (%)
2011	8.14	35	63	35.6	457	3.2
2010	8.04	35	60	61.8	789	5.7
2009	6.70	40	48	31.6	353	2.7
2008	13.04	107	82	60.2	588	4.7
2007	20.17	107	119	158.6	1,064	8.6

1 The Suncorp Group completed a restructure on 7 January 2011. Amounts prior to this restructure relate to Suncorp-Metway Ltd, the ultimate parent entity prior to the restructure.

2 Closing share price at 30 June.

3 TSR is based on the closing share price as at 30 June relative to the share price at the commencement of the five year period commencing 1 July 2006. To have achieved a value of 125 at 30 June 2011, this means an initial capital investment of $100 in Suncorp shares on 1 July 2006, together with reinvested dividends over the ensuing five year period, would be worth $125 at 30 June 2011.

Suncorp Group performance and short-term incentives

The Suncorp Group met certain short-term Suncorp Group and individual performance objectives during 2011, which resulted in value being delivered to the SLT under the STI program at an average of 58% of total realisable STI maximum.

As outlined in section 2.3, STI outcomes are determined by the assessment of each SLT member's performance against predetermined financial and non-financial performance objectives. Actual STI payments for 2011 are represented in the table below. On average, 42% of the STI opportunity was forfeited.

STI awards for 2011

	ACTUAL STI AWARDED ($'000)[1]	MAXIMUM STI ($'000)[2,3]	ACTUAL STI AWARD AS % OF MAXIMUM STI	% OF MAXIMUM STI AWARD FORFEITED	AMOUNT DEFERRED ($'000)
Executive director					
Patrick Snowball	1,980	3,300	60	40	990
Senior Executives					
Anthony Day	700	1,265	55	45	245
Gary Dransfield[4]	60	100	60	40	21
David Foster	775	1,406	55	45	271
Mark Milliner	855	1,462	58	42	299
John Nesbitt	940	1,560	60	40	329
Amanda Revis[4]	595	1,003	59	41	208
Jeff Smith	945	1,463	65	35	331
Robert Stribling	670	1,125	60	40	235
Geoff Summerhayes	700	1,290	54	46	245
Former Senior Executives					
Roger Bell[4]	518	1,279	52	48	181
Dharma Chandran[5]	–	–	–	–	–

1 The value of STI awarded for 2011 represented is before any deferral.

2 Maximum STI represents 150% of fixed remuneration for the Group CEO and 187.5% of fixed remuneration for all other SLT members.

3 The maximum potential value of the 2011 STI awards for the SLT is the amount disclosed. A minimum level of performance must be achieved before any STI is awarded. Therefore, the minimum potential value of the STI for all participants in 2011 was nil.

4 Individual was not a KMP for the full financial year 2011. Pro rata maximum STI is represented within the table, to reflect the maximum STI possible during the time the Senior Executive was a KMP.

5 Mr Chandran was not eligible for STI in 2010 or 2011.

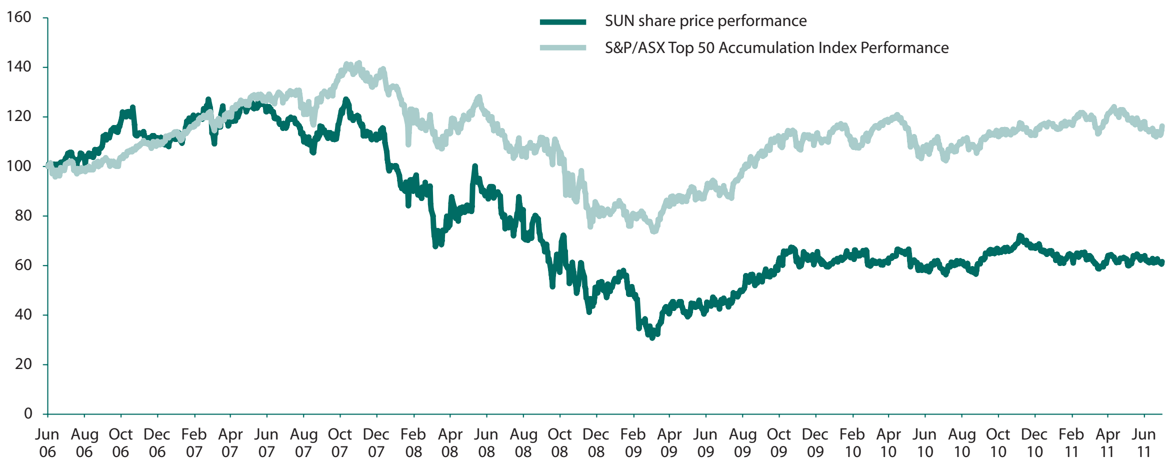
Company performance and long-term incentives

In 2011 the LTI performance hurdles were not met and the SLT members in office at 30 June 2011 derived no value in 2011 in relation to their LTI entitlements. As outlined in section 2.3, the vesting of LTI is based on relative TSR performance against the Peer Comparator Group. If the Company's TSR performance does not meet or exceed the median of this Peer Comparator Group, LTI does not vest and the SLT members are not rewarded.

The graph below shows the Company's TSR performance relative to the S&P/ASX 50 Index over the five years to 30 June 2011. The S&P/ASX 50 Index is used as a proxy for the performance of the Peer Comparator Group.

S&P/ASX Top 50 Accumulation Index and SUN share price

Return Index including net dividends (both indices rebased at 100 at 30/06/2006)



2. Remuneration – audited (continued)

2.4 Remuneration and the link to performance (continued)

Information with respect to the movement of performance rights during 2011 and of current LTI grants held by the Group CEO and Senior Executives (current and former) as at 30 June 2011 are outlined in the table below.

Number and value of performance rights granted, vested and forfeited under the EPSP

	PERFORMANCE RIGHTS GRANTED			FAIR VALUE YET TO VEST		MARKET VALUE			
	NUMBER OF ORDINARY SHARES	DATE	YEAR IN WHICH GRANT MAY FIRST VEST	MIN[1] $	MAX[2] $	AT DATE OF GRANT[3] $	AS AT 30 JUNE 2011[4] $	VESTED IN YEAR %	FORFEITED IN YEAR %
Executive director									
Patrick Snowball	300,000	01 Oct 09	30 Jun 13	–	1,902,000	2,646,000	2,442,000	–	–
	300,000	01 Oct 09	30 Jun 14	–	1,968,000	2,646,000	2,442,000	–	–
	300,000	01 Oct 09	30 Jun 15	–	2,025,000	2,646,000	2,442,000	–	–
Senior Executives									
Anthony Day	9,543	01 Oct 07	30 Jun 11[5]	–	139,328	194,200	77,680	–	–
	13,843	01 Oct 08	30 Jun 12	–	59,802	133,031	112,682	–	–
	17,092	01 Oct 09	30 Jun 13	–	108,363	150,751	139,129	–	–
	71,585	01 Oct 10	30 Jun 14	–	380,116	627,800	582,702	–	–
Gary Dransfield	20,136	01 Oct 09	30 Jun 13	–	127,662	177,600	163,907	–	–
	18,942	01 Oct 10	30 Jun 14	–	100,582	166,121	154,188	–	–
David Foster	23,120	01 Oct 06	30 Jun 10[5]	–	286,919	507,253	188,197	–	–
	763	17 Apr 07	30 Jun 10[5]	–	5,945	16,382	6,211	–	–
	32,740	01 Oct 07	30 Jun 11[5]	–	478,004	666,259	266,504	–	–
	64,272	01 Oct 08	30 Jun 12	–	277,655	617,654	523,174	–	–
	81,949	01 Oct 09	30 Jun 11[5]	–	519,557	722,790	667,065	–	–
	77,092	01 Oct 10	30 Jun 14	–	409,359	676,097	627,529	–	–
Mark Milliner	20,808	01 Oct 06	30 Jun 10[5]	–	258,227	456,528	169,377	–	–
	686	17 Apr 07	30 Jun 10[5]	–	5,344	14,728	5,584	–	–
	35,259	01 Oct 07	30 Jun 11[5]	–	514,781	717,521	287,008	–	–
	69,216	01 Oct 08	30 Jun 12	–	299,013	665,166	563,418	–	–
	81,949	01 Oct 09	30 Jun 13	–	519,557	722,790	667,065	–	–
	82,599	01 Oct 10	30 Jun 14	–	438,601	724,393	672,356	–	–
John Nesbitt	313,016	03 May 10	30 Jun 13	–	1,859,315	2,851,576	2,547,950	–	–
	88,105	01 Oct 10	30 Jun 14	–	467,838	772,681	717,175	–	–
Amanda Revis	58,920	01 Oct 10	30 Jun 14	–	312,865	516,728	479,609	–	–
Jeff Smith	37,777	01 Oct 07	30 Jun 11[5]	–	551,544	768,762	307,505	–	–
	74,160	01 Oct 08	30 Jun 12	–	320,371	712,678	603,662	–	–
	87,803	01 Oct 09	30 Jun 13	–	556,671	774,422	714,716	–	–
	82,599	01 Oct 10	30 Jun 14	–	438,601	724,393	672,356	–	–
Robert Stribling[6]	66,079	01 Oct 10	30 Jun 14	–	261,012	579,513	537,883	–	–
Geoff Summerhayes	61,800	01 Oct 08	30 Jun 12	–	266,976	593,898	503,052	–	–
	73,169	01 Oct 09	30 Jun 13	–	463,891	645,351	595,596	–	–
	68,832	01 Oct 10	30 Jun 14	–	365,498	603,657	560,292	–	–
Former Senior Executives									
Roger Bell[7]	23,813	01 Apr 07	30 Jun 10[5]	–	271,706	495,310	193,838	–	–
	32,740	01 Oct 07	30 Jun 11[5]	–	478,004	666,259	266,504	–	–
	64,272	01 Oct 08	30 Jun 12	–	277,655	617,654	523,174	–	–
	76,096	01 Oct 09	30 Jun 13	–	482,449	671,167	619,421	–	–
	71,585	01 Oct 10	30 Jun 14		380,116	627,800	582,702	–	–
Dharma Chandran[8]	–	–	–	–	–	–	–	–	–

1 The minimum value of shares yet to vest is nil as the performance criteria or service condition may not be met and consequently the shares may not vest.
2 For equity-settled performance rights, the maximum value yet to vest is determined as the fair value at grant date, assuming all performance criteria are met. (For cash-settled performance rights, the maximum value of shares yet to vest is determined as the fair value at 30 June 2011, assuming all performance criteria are met.)
3 Market value at date of grant is calculated by the number of shares granted multiplied by the closing share price as traded on the Australian Securities Exchange (ASX) on the date of grant. Where the date of grant falls on an ASX non-trading day, the closing share price of the preceding trading day is used.
4 Market value as at 30 June 2011 is calculated by the number of shares granted multiplied by the closing share price as traded on ASX on 30 June 2011.
5 Executives elected to extend the performance period by a further two years.
6 The grant made to Mr Stribling was for cash-settled performance rights.
7 Mr Bell's employment ceases on 30 September 2011. At this point all unvested performance shares will be prorated at termination and Mr Bell will be given the opportunity to either have them tested against the performance criteria then or to allow the performance shares to continue on foot and be tested at the original end date. The final number of shares to vest will depend on how they perform when measured against the performance criteria.
8 Mr Chandran does not hold LTI.

2.5 SLT remuneration disclosures in detail

This section provides full details of total remuneration for the SLT for 2011 and 2010, as required under the provisions of the *Corporations Act 2001*.

The table below includes LTI amounts which did not deliver value during 2011 to the SLT members in office at 30 June 2011. The 'share-based payment' amount reflects the amount required to be expensed in accordance with Accounting Standards. The fair value of equity-settled performance rights is determined at grant date and amortised over the vesting period. The fair value of cash-settled performance rights is remeasured at year end, with changes in fair value recognised as an expense. The values realised in subsequent years may differ to the accounting expense reported below, depending on the extent to which the performance hurdles are met.

Details of remuneration for SLT members (calculated in accordance with applicable Accounting Standards) are set out in the table below.

Remuneration of SLT members for the year ended 30 June 2011

	SHORT-TERM BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS			
	SALARY AND FEES $'000	STI $'000	NON-MONETARY BENEFITS[1] $'000	OTHER[2] $'000	SUPERANNUATION BENEFITS $'000	DEFERRED STI[3] $'000	OTHER[4] $'000	TERMINATION BENEFITS[5] $'000	TOTAL EXCLUDING SHARE-BASED PAYMENTS $'000
2011									
Executive director									
Patrick Snowball	2,183	990	43	153	9	607	–	–	3,985
Senior Executives									
Anthony Day	656	455	2	11	16	245	–	–	1,385
Gary Dransfield[6] (from 23 May 2011)	62	39	1	8	–	21	–	–	131
David Foster	716	504	1	25	25	271	18	–	1,560
Mark Milliner	760	556	2	(17)	16	299	21	–	1,637
John Nesbitt	812	611	3	20	19	329	–	–	1,794
Amanda Revis (from 16 August 2010)	458	387	2	20	15	208	–	–	1,090
Jeff Smith	750	614	3	46	26	331	–	–	1,770
Robert Stribling	552	436	3	3	50	235	–	–	1,279
Geoff Summerhayes	624	455	3	(1)	51	245	–	–	1,377
Former Senior Executives									
Roger Bell[7] (to 22 May 2011)	607	337	12	276	774	181	–	1,318	3,505
Dharma Chandran[8] (to 15 August 2010)	152	–	–	–	–	–	–	–	152

2. Remuneration – audited (continued)

2.5 SLT remuneration disclosures in detail (continued)

Remuneration of SLT members for the year ended 30 June 2011

	SHARE-BASED PAYMENTS[9] $'000	PERFORMANCE RELATED %
2011		
Executive director		
Patrick Snowball	1,531	56.7
Senior Executives		
Anthony Day	179	56.2
Gary Dransfield[6] (from 23 May 2011)	8	48.9
David Foster	464	61.2
Mark Milliner	485	63.1
John Nesbitt	737	66.3
Amanda Revis (from 16 August 2010)	78	57.6
Jeff Smith	512	63.9
Robert Stribling	65	54.7
Geoff Summerhayes	335	60.5
Former Senior Executives		
Roger Bell[7] (to 22 May 2011)	393	23.4
Dharma Chandran[8] (to 15 August 2010)	–	–

1 Non-monetary benefits costs met by the Suncorp Group for airfares and insurances.
2 Other short-term benefits represent annual leave accrued during the year.
3 The amount of deferred STI awarded to Mr Snowball is discounted and amortised over the vesting period. The amount of deferred STI awarded to members of the SLT is recognised in full as there are no performance or service conditions required.
4 Other long-term benefits represent long service leave accrued during the year.
5 Termination benefits are paid in accordance with contractual commitments. Refer to section 2.6.
6 Mr Dransfield became a member of the SLT on 23 May 2011. Remuneration disclosed relates only to his period in office.
7 Mr Bell is remunerated in New Zealand dollars, amounts are disclosed in Australian dollars. Mr Bell's employment ceases on 30 September 2011. Termination benefits to Mr Bell are restricted to the terms required in his contract and are stated under 'Post-employment benefits Superannuation benefits' and 'Termination benefits'. The terms of Mr Bell's contract were disclosed in last year's remuneration report and are included here for convenience. The contract required 116 weeks' notice upon termination and additional pension benefits of 20% of earned pensionable service and funding to allow pension payments to commence at age 55 years with no early retirement reduction factor. The latter term (i.e. funding to allow pension payments to commence at 55) had no impact as Mr Bell is over 55.
8 Mr Chandran was seconded from Ernst & Young. Remuneration disclosed reflects the fees paid to Ernst & Young.
9 Equity-settled performance rights issued as LTI to SLT members are expensed to the income statement based on their fair value at grant date over the period from grant date to vesting date. For cash-settled performance rights, the fair value is remeasured at year end with changes in fair value recognised as an expense. The fair value was assessed using a Monte Carlo model and reflects the fact that an individual's entitlement to the shares is dependent on relative TSR performance. The assumptions underpinning these valuations are set out in note 12 to the financial statements.

Remuneration of SLT members for the year ended 30 June 2010

	SHORT-TERM BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS			
	SALARY AND FEES $'000	STI $'000	NON-MONETARY BENEFITS[1] $'000	OTHER[2] $'000	SUPER-ANNUATION BENEFITS $'000	DEFERRED STI[3] $'000	OTHER[4] $'000	TERMINATION BENEFITS $'000	TOTAL EXCLUDING SHARE-BASED PAYMENTS $'000
2010									
Executive director									
Patrick Snowball (from 1 September 2009)	1,748	963	40	371	9	294	–	–	3,425
Senior Executives									
Roger Bell[5]	467	650	1	(60)	88	–	–	–	1,146
Dharma Chandran (from 20 April 2010)[6]	250	–	–	–	–	–	–	–	250
Anthony Day (from 21 October 2009)[7]	377	460	–	17	10	–	–	–	864
David Foster	683	700	1	16	23	–	16	–	1,439
Mark Milliner	717	750	1	31	22	–	35	–	1,556
John Nesbitt (from 3 May 2010)	132	133	–	10	4	–	–	–	279
Jeff Smith	730	850	1	21	25	–	–	–	1,627
Robert Stribling (from 4 January 2010)	290	300	–	22	7	–	–	–	619
Geoff Summerhayes	579	625	1	(14)	50	–	–	–	1,241

2. Remuneration – audited (continued)

2.5 SLT remuneration disclosures in detail (continued)

Remuneration of SLT members for the year ended 30 June 2010

	SHARE-BASED PAYMENTS [8] $'000	PERFORMANCE RELATED %
2010		
Executive director		
Patrick Snowball (from 1 September 2009)	1,148	52.6
Senior Executives		
Roger Bell [5]	336	66.5
Dharma Chandran (from 20 April 2010) [6]	–	–
Anthony Day (from 21 October 2009) [7]	58	56.2
David Foster	342	59.4
Mark Milliner	354	59.6
John Nesbitt (from 3 May 2010)	103	61.8
Jeff Smith	356	60.8
Robert Stribling (from 4 January 2010)	–	48.5
Geoff Summerhayes	205	57.4

1 Non-monetary benefits costs met by the Suncorp Group for airfares and insurances.
2 Other short-term benefits represent annual leave accrued during the year.
3 The amount of deferred STI awarded to Mr Snowball is discounted and amortised over the vesting period.
4 Other long-term benefits represent long service leave accrued during the year.
5 Mr Bell is remunerated in New Zealand dollars, amounts are disclosed in Australian dollars.
6 Mr Chandran was seconded from Ernst & Young. Remuneration disclosed reflects the fees paid to Ernst & Young.
7 Mr Day became a member of the SLT on 21 October 2009. Remuneration disclosed relates only to his period in office.
8 Equity-settled performance rights issued as LTI to SLT members are expensed to the income statement based on their fair value at grant date over the period from grant date to vesting date. For cash-settled performance rights, the fair value is remeasured at year end with changes in fair value recognised as an expense. The fair value was assessed using a Monte Carlo model and reflects the fact that an individual's entitlement to the shares is dependent on relative TSR performance. The assumptions underpinning these valuations are set out in note 12 to the financial statements.

2.6 Contractual arrangements

Group CEO

Mr Snowball was appointed Managing Director and CEO effective 1 September 2009, with a position title change to Group CEO effective 17 April 2010. Mr Snowball is employed by Suncorp Staff Pty Limited, a wholly-owned subsidiary of the Company. His contract of employment provides for a four-year term (Term). At the expiry of the Term, the parties can agree to extend the Term for a further 12 months. The Term may be extended in this way on more than one occasion.

The following table summarises the notice periods and payments required upon termination:

	NOTICE PERIOD	PAYMENT IN LIEU OF NOTICE	TREATMENT OF STI ON TERMINATION	TREATMENT OF LTI ON TERMINATION
Employer-initiated termination				
In cases other than misconduct or other circumstances justifying summary dismissal	12 months	When notice is required, the Company may make a payment in lieu of notice of all or part of any notice period, calculated based on a percentage of the Group CEO's fixed remuneration.	Board discretion*	Board discretion*
Where individual becomes incapacitated, is of unsound mind or health deteriorates to a certain degree	9 months		Board discretion*	Board discretion*
For poor performance	3 months		Deferred STI award forfeited	Unvested awards under Initial Grant forfeited
Misconduct or other circumstances justifying summary dismissal	None		Deferred STI award forfeited	Unvested awards under Initial Grant forfeited
Employee-initiated termination				
Generally	6 months		Deferred STI award forfeited	Unvested awards under Initial Grant forfeited

* Any deferred STI award and any unvested LTI performance rights under the Initial Grant (defined below) will continue until the relevant vesting dates and subject to the performance measures, unless the Board exercises its discretion otherwise. In the case of the Initial Grant of performance rights, the number of performance rights that will continue to be available will depend on when the termination of employment occurs: after one year of service 300,000 will be available, after two years' service 600,000 will be available and after three years' service 900,000 will be available.

Where a change of control occurs, subject to the satisfaction of applicable performance measures:

– deferred STI and a pro rata award of current year STI may be awarded; and
– unvested LTI may vest pro rata.

STI terms

Of any STI awarded to the Group CEO, 50% will be paid in cash and the balance will be deferred for two years. The deferred component will be subject to reduction or forfeiture in certain circumstances (including where there has been a failure to follow risk management policies and practices).

LTI entitlement

The Group CEO's full LTI entitlement for the 2010, 2011 and 2012 financial years comprises an initial grant of 900,000 performance rights to shares in the Company (Initial Grant) under the EPSP. The Initial Grant of performance rights was made in three equal tranches.

Vesting of the Initial Grant will be subject to the performance conditions outlined in section 2.3 and will be tested over a three to five-year period.

2. Remuneration – audited (continued)

2.6 Contractual arrangements (continued)

The performance period for each LTI tranche is summarised in the table below.

TRANCHE 1	TRANCHE 2	TRANCHE 3
– Performance period began: 1 October 2009 – Performance period ends on either: 30 September 2012 (initial period), 30 September 2013 (second period) or 30 September 2014 (final period) – At the end of the initial period, the Group CEO can elect to accept the performance result or extend the performance period for a further 12 months – If the initial period is extended, the Group CEO can elect to accept the performance result at the end of the second period or extend the performance period for a further 12 months – If the second period is extended, the number of shares to be allocated at the end of the final period will be based on the highest performance measure result recorded at the end of any of the prescribed performance periods for tranche 1	– Performance period began: 1 October 2009 – Performance period ends on either: 30 September 2013 (initial period) or 30 September 2014 (final period) – At the end of the initial period for tranche 2, the Group CEO can elect to accept the performance result or extend the performance period for a further 12 months – If the initial period is extended, the number of shares to be allocated at the end of the final period will be based on the highest performance measure result recorded at the end of any of the performance periods for tranche 2	– Performance period began: 1 October 2009 – Performance period ends: 30 September 2014

Senior Executives

Senior Executives are employed either by Suncorp Staff Pty Limited or Vero Insurance New Zealand Limited, both of which are wholly-owned subsidiaries of the Company, under a standard employment contract with no fixed term with the exception of Mr Stribling whose contract provides for a two-year term.

Senior Executives' contracts may be terminated at any time provided that the notice period is given or paid out in lieu, based on benefits base (fixed remuneration less superannuation contributions) plus the value of other accrued benefits. Exceptions to this, where payments in lieu of notice are based on a percentage of fixed remuneration, are noted in the table below, which outlines the terms and conditions of Senior Executives' contracts.

Key terms of Senior Executives' contracts

SENIOR EXECUTIVE	NOTICE ON RESIGNATION (EMPLOYEE-INITIATED)	NOTICE ON TERMINATION (EMPLOYER-INITIATED)	REDUNDANCY REMUNERATION (INCLUDING NOTICE)	STI PAYMENT ON TERMINATION[1]	LTI ON TERMINATION[2]
Standard terms					
All Senior Executives	3 months	12 months	12 months	Board discretion	Pro-rata if qualifying reason
Exceptions					
Geoff Summerhayes	3 months	12 months	Greater of 12 months or total benefit under the redundancy policy (maximum of 75 weeks including notice)	Board discretion	Pro-rata if qualifying reason
Robert Stribling	3 months	12 months	None	Board discretion	Treatment of LTI entitlement dependent on when contract terminated[3]

1 In the event of resignation, redundancy or retirement, the deferred STI portion will generally vest after the termination date in accordance with the deferral period and will be subject to potential ex-post adjustment at the end of the deferral period.

2 LTI treatment on termination and situations where qualifying reasons may be applicable are outlined in full within section 2.3 of this report.

3 Treatment of LTI on termination for Mr Stribling varies according to when his contract is terminated:
- if his employment expires at the end of the initial two-year appointment term (i.e. on 3 January 2012), any performance rights that have been granted continue 'on foot' until the relevant vesting date
- if his employment is terminated for any other reason prior to the expiry of the initial two-year appointment term, any performance rights that have not yet vested will be forfeited; and
- if his employment continues after the end of the initial two-year appointment term and is subsequently terminated, any performance rights that have not yet vested will lapse if termination is not for a qualifying reason and if for a qualifying reason, the performance rights would vest on a pro rata basis.

Notice of termination by the Company is not required in the event of serious misconduct by the Senior Executive. Payment on termination will include payment of accrued annual leave and, where appropriate, long service leave.

3. Non-executive director arrangements – audited

3.1 Remuneration structure

Remuneration policy

Remuneration arrangements for non-executive directors are designed to ensure that the Company can attract and retain suitably qualified and experienced directors. Arrangements are based on a number of factors, including requirements of the role, the size and complexity of the Suncorp Group and market practice.

Fee structure

In April 2007, shareholders approved a maximum aggregate total remuneration limit of $3,500,000 for all non-executive directors. The limit includes superannuation contributions but excludes retirement benefits. In addition:

- non-executive directors receive fixed pay only, paid as directors' fees and do not participate in performance-based incentive plans
- although directors of the Company are also directors of the Suncorp Group's major operating subsidiary companies including Suncorp-Metway Ltd, no additional fees are paid for membership of those boards; and
- the Company pays the superannuation guarantee contribution (SGC) on behalf of all eligible non-executive directors. If a director ceases to be eligible for SGC payments, the equivalent amount is paid in fees. The SGC payments for non-executive directors are included in the maximum aggregate total remuneration limit referred to above.

The approved non-executive director fee structure for 2011 is set out in the table below.

ROLE	2011 FEE P.A.[1] $'000	2012 FEE P.A.[1] $'000
Chairman	550	570
Non-executive director base fee	200	207
Loading for Audit Committee Chairman	50	50
Loading for Audit Committee member	25	25
Loading for Risk Committee Chairman	40	50
Loading for Risk Committee member	20	25
Loading for Remuneration Committee Chairman	30	40
Loading for Remuneration Committee member	15	20
Loading for Chairmanship of New Zealand company boards	50	50
Loading for Chairmanship of New Zealand joint venture	20	50

1 Fees exclude Superannuation Guarantee Contribution.

3. Non-executive director arrangements – audited (continued)

3.2 Non-Executive Directors' Share Plan (NEDSP)

The NEDSP was established in November 2001, following shareholder approval, to facilitate the purchase of shares by directors by nominating a percentage of their pre-tax remuneration to be used to buy the Company's shares on market at predetermined dates.

The shares are fully vested and if acquired prior to 1 July 2009 can be held in the NEDSP for up to ten years from the date of purchase or until retirement, whichever occurs first. Shares acquired under the NEDSP after 1 July 2009 can be held for up to seven years.

3.3 Non-executive directors' retirement benefits

Shareholders approved a directors' retirement plan (Plan) which entitles directors to be paid a retirement benefit based on the highest total emoluments paid to a director during any consecutive three-year period.

However, those retirement benefit arrangements have been phased out in the following manner:

- The Company ceased to offer retirement benefits to non-executive directors appointed after 30 June 2003.
- Directors in office at 30 June 2003 (Participating Directors) remained contractually entitled to a retirement benefit. However, those directors agreed to cap their benefit entitlement as at 30 June 2004 and amortise their respective benefits entitlement from that date, over the period they remain in office, at a rate equivalent to 20% of their annual directors' fees.
- Participating Directors remain entitled to receive the greater of:
  - the amortised balance of their retirement benefit at the date they retire from office; or
  - an amount equal to 25% of the total emoluments they received as a director over the period from the date of their appointment as a director to 30 June 2004 (Minimum Retirement Benefit).

During the course of the financial year ended 30 June 2009, the Minimum Retirement Benefit Limit was reached for all Participating Directors, therefore no further amortisation of retirement benefits occurred during 2011.

Only one Participating Director remains in office at the date of this report and is entitled to receive as a retirement benefit, an amount equal to 25% of the total emoluments he received as a director over the period from the date of his appointment as a director to 30 June 2004.

The amount of retirement benefits paid to retiring directors (if any) during the year under the terms of the Plan and full details of directors' benefits and interests are included in the table in section 3.4.

3.4 Remuneration details

Details of non-executive directors' remuneration for 2011 and 2010 are set out in the table below.

	SHORT-TERM BENEFITS		POST-EMPLOYMENT BENEFITS		
	SALARY AND FEES $'000	NON-MONETARY BENEFITS[1] $'000	SUPERANNUATION BENEFITS $'000	RETIREMENT BENEFITS[2] $'000	TOTAL[3] $'000
Non-executive directors in office as at 30 June 2011					
John Story (Chairman)					
2011	550	1	50	–	601
2010	550	1	50	–	601
Ilana Atlas (appointed 1 January 2011)					
2011	125	–	11	–	136
2010	–	–	–	–	–
William Bartlett					
2011	244	1	22	–	267
2010	252	1	23	–	276
Paula Dwyer					
2011	263	1	15	–	279
2010	223	1	17	–	241
Stuart Grimshaw					
2011	245	1	22	–	268
2010	98	–	9	–	107
Ewoud Kulk					
2011	261	1	45	–	307
2010	211	1	45	–	257
Geoffrey Ricketts					
2011	250	1	22	–	273
2010	225	1	20	–	246
Dr Zygmunt Switkowski					
2011	250	1	22	–	273
2010	240	1	22	–	263
Non-executive directors retired during 2011					
Dr Ian Blackburne (retired 31 August 2010)					
2011	40	–	4	97	141
2010	240	1	22	–	263

1 The non-executive directors receive a non-monetary benefit in relation to a proportion of the directors' and officers' insurance policy premium pro rated for time in office. The amounts for both the current and prior year are below $1,000 per individual.

2 The provision of retirement benefits ceased on 1 July 2005, however as at 30 June 2011, only one non-executive director who held office prior to that date retains an entitlement to a retirement benefit. The figure represented within the Retirement Benefits column reflects the value of retirement benefit payments in 2011.

3 None of the remuneration paid to non-executive directors is performance-based, refer to section 3.1.

This report is made in accordance with a resolution of the Board of Directors.

John D Story
Chairman

Patrick J R Snowball
Managing Director

Brisbane
24 August 2011

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 audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

P.M. Reid

Paul Reid
Partner

Brisbane
24 August 2011

Corporate Governance Statement

The Board of Directors of Suncorp Group Limited (the **Company**) is responsible for the corporate governance of the Company and its subsidiaries (the **Suncorp Group**). This Statement outlines the principal corporate governance practices and policies that the Board has established to ensure the interests of shareholders are protected, and the confidence of the investment market in the Company is maintained.

These practices and policies were in place throughout the 2011 financial year (unless otherwise stated).

On 7 January 2011, Suncorp Group Limited replaced Suncorp-Metway Ltd as the listed parent of the Suncorp Group as part of the Non-Operating Holding Company (NOHC) restructure. While the actual governance model of the Suncorp Group following the NOHC restructure has not changed, overall governance has been enhanced by the closer alignment of the corporate structure with the operating model and management accountabilities.

The governance practices described in this Statement applied to Suncorp-Metway Ltd throughout the 2011 financial year and have applied to the Company since completion of the NOHC restructure. These practices and policies are current as at the date of this Statement, which is 24 August 2011.

In establishing the corporate governance framework, the Board has considered various governance standards, including the *Corporate Governance Principles and Recommendations* as published by the Australian Securities Exchange (ASX) (Recommendations). This Statement also reports against the revised recommendations released in June 2010. The Recommendations articulate core principles and practices that the ASX Corporate Governance Council believes underlie good corporate governance and all listed companies are required to disclose the extent to which they depart from these Recommendations. The Suncorp Group's corporate governance policies, procedures and practices have been developed and implemented by the Board and management over many years and are consistent with the Recommendations.

During the 2010/11 financial year there were no departures from the Recommendations which should be disclosed to shareholders.

The Recommendations, and the relevant sections of this Statement which address each of the Recommendations, are summarised in the table below.

PRINCIPLES AND RECOMMENDATIONS		RELEVANT SECTION(S)	COMPLY?
Principle 1 – Lay solid foundations for management and oversight			
1.1	Establish and disclose the functions reserved to the Board and those delegated to Senior Executives.	Parts 1.1 and 3.1	Yes
1.2	Disclose the process for evaluating the performance of Senior Executives.	Part 3.2	Yes
1.3	Provide the information indicated in the Guide to reporting on Principle 1.	Parts 1.2, 3.1 and 3.2	Yes
Principle 2 – Structure the Board to add value			
2.1	A majority of the Board should be independent directors.	Part 1.5	Yes
2.2	The chairman should be an independent director.	Parts 1.3 and 1.5	Yes
2.3	The roles of chairman and Chief Executive Officer should not be exercised by the same individual.	Part 1.3	Yes
2.4	The Board should establish a Nomination Committee consisting of a minimum of three members, the majority being independent directors.	Part 2	Yes
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors.	Parts 1.9 and 2.2	Yes
2.6	Provide the information indicated in the Guide to reporting on Principle 2.	Parts 1.3, 1.5, 1.8, 1.9, 2.2, and 2	Yes

PRINCIPLES AND RECOMMENDATIONS		RELEVANT SECTION(S)	COMPLY?
Principle 3 – Promote ethical and responsible decision-making			
3.1	Establish a code of conduct to guide the Board and Senior Executives as to: 3.1.1 the practices necessary to maintain confidence in the Company's integrity 3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of stakeholders, and 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Part 5.3	Yes
3.2	Establish a policy concerning diversity and disclose the policy or a summary of the policy.	Part 5.3	Yes
3.3	Disclose the measurable objectives for achieving gender diversity set by the Board.	Part 5.3	Yes
3.4	Disclose the proportion of women employees in the whole organisation, women in Senior Executive positions and women on the Board.	Part 5.3	Yes
3.5	Provide the information indicated in the Guide to reporting on Principle 3.	Part 5.3	Yes
Principle 4 – Safeguard integrity in financial reporting			
4.1	The Board should establish an Audit Committee.	Part 2	Yes
4.2	Structure the Audit Committee so that it: – consists only of non-executive directors – consists of a majority of independent directors – is chaired by an independent chairman, who is not a chairman of the Board; and – has at least three members.	Part 2	Yes
4.3	The Audit Committee should have a formal charter.	Part 2	Yes
4.4	Provide the information indicated in the Guide to reporting on Principle 4.	Parts 2 and 4.4	Yes
Principle 5 – Make timely and balanced disclosure			
5.1	Establish and disclose written policies and procedures designed to ensure accountability at a Senior Executive level for compliance with ASX disclosure requirements.	Part 5.4	Yes
5.2	Provide the information indicated in the Guide to reporting on Principle 5.	Part 5.4	Yes
Principle 6 – Respect the rights of shareholders			
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Part 5.4	Yes
6.2	Provide the information indicated in the Guide to reporting on Principle 6.	Part 5.4	Yes
Principle 7 – Recognise and manage risk			
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Part 4	Yes
7.2	Require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to the Board on whether those risks are being managed effectively.	Parts 3.1, 4.2 and 4.3	Yes
7.3	Disclose whether the Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided under s295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control that is operating effectively in all material respects in relation to financial reporting risks.	Part 4.2	Yes
7.4	Provide the information indicated in the Guide to reporting on Principle 7.	Part 4	Yes

PRINCIPLES AND RECOMMENDATIONS		RELEVANT SECTION(S)	COMPLY?
Principle 8 – Remunerate fairly and responsibly			
8.1	The Board should establish a Remuneration Committee.	Part 2	Yes
8.2	Structure the Remuneration Committee so that it: – consists of a majority of independent directors – is chaired by an independent chairman, and – has at least three members.	Parts 2 and 5.1	Yes
8.3	Distinguish the structure of non-executive directors' remuneration from that of executive directors and Senior Executives.	Part 5.1	Yes
8.4	Provide the information indicated in the Guide to reporting on Principle 8.	Parts 2 and 5.1	Yes

Further information is available on the Company's website at www.suncorpgroup.com.au under 'Corporate Governance'.

Part 1. Board of Directors

1.1 Role of the Board

The Board is accountable to shareholders for the Suncorp Group's performance and has overall responsibility for the Group's operations.

The Suncorp Group conducts a diverse and complex range of business including general insurance, banking and life insurance, which means an important feature of the Board's work is to monitor compliance with the prudential and solvency requirements of the Australian Prudential Regulation Authority (APRA).

Therefore, directors of the Company also undertake roles as directors of Asteron Life Limited, Australian Associated Motor Insurers Limited, Australian Alliance Insurance Company Limited, Suncorp Insurance Holdings Limited, Suncorp Metway Insurance Ltd, Suncorp-Metway Ltd, GIO General Limited, Suncorp Life & Superannuation Limited and Vero Insurance Limited, which are all subject to APRA regulation.

The Suncorp Group's operations also extend to New Zealand and Mr Geoffrey Ricketts, a director of Suncorp Group Limited, was also a director and Chairman of the Group's major operating entities in New Zealand over the course of the year.

1.2 Responsibilities of the Board

The Board has adopted a Board Charter, which sets out the principles for the operation of the Board of Directors and provides a description of the functions and responsibilities of the Board and the functions delegated to management. A copy of that charter is available on the Company's website under 'Corporate Governance'. The key functions of the Board are summarised below:

- approve the strategic direction and related objectives for the Suncorp Group
- approve annual budgets, dividend policy and dividend payments
- monitor the Suncorp Group's financial performance and executive management performance in the implementation and achievement of strategic and business objectives
- review and, as appropriate, approve management proposals regarding acquisitions and divestitures of companies, businesses and functions
- review and approve Suncorp Group capital management policies and plans, having regard for the various liquidity and capital adequacy regulatory requirements applying to the Suncorp Group
- monitor the process whereby business risks are identified and approve systems and controls to manage those risks and monitor compliance
- appoint and remove the Managing Director/Group Chief Executive Officer (the Group CEO) and approve the appointment and removal of Senior Executives reporting directly to the Group CEO (Senior Leadership Team)
- approve the remuneration arrangements of the Group CEO and Senior Leadership Team, including measures of performance, and performance targets, and manage succession plans for the Group CEO
- determine and approve the level of authority to be granted to the Group CEO in respect of operating and capital expenditure and credit facilities
- authorise the further delegation of those authorities to management by the Group CEO; and
- approve major operating and capital expenditure and credit facilities in excess of the limits delegated to management.

1.3 Composition of the Board

The Board Charter contains the following guidelines on Board composition:

- the Board shall comprise no more than 13 directors and no fewer than seven
- a majority of directors must be independent, non-executive directors, and
- the directors shall appoint, as Chairman of the Board, one of the non-executive directors deemed by the Board to be independent.

At the date of this Statement, the Board comprises seven non-executive directors and one executive director, the Group CEO, Patrick Snowball. The names of directors, including details of their qualifications and experience, are set out in the Directors' Report.

The composition of the Board is subject to review in a number of ways, as outlined below:

– The Company's Constitution provides that at every Annual General Meeting one third of the directors, excluding the Group CEO, shall retire from office but may stand for re-election.

  Directors offering themselves for re-election are subject to a performance assessment, conducted by the Nomination Committee at the end of the financial year immediately preceding the director's retirement date. That assessment is based largely on the outcomes of the annual Board appraisal which includes assessments of individual director performance.

  Subject to the outcome of that assessment, the Board then confirms to shareholders whether it supports the re-election of each retiring director in a statement that accompanies the Notice of Meeting.

– Board composition is reviewed periodically by the Nomination Committee, either when a vacancy arises, if it is considered that the Board would benefit from the services of a new director given the Board's existing mix of skills and experience, or as part of the ongoing process of board succession planning.

  The Board considers it important to maintain an appropriate mix between long serving directors with first hand knowledge of the Suncorp Group's businesses and corporate history, and new directors who bring new perspectives to the role. Over the course of the year, Dr Ian Blackburne retired as a director (31 August 2010); Ms Ilana Atlas was appointed a non-executive director (1 January 2011); Mr Stuart Grimshaw resigned as a director (23 August 2011); and Mr John Story announced he will be retiring as a director later this calendar year.

  The period of office held by each of the directors as at the date of this Statement is as follows:

DIRECTOR	TERM IN OFFICE
Mr John Story (Chairman)	16 years 7 months
Ms Ilana Atlas	7 months
Mr William Bartlett	8 years 2 months
Ms Paula Dwyer	4 years 4 months
Mr Stuart Grimshaw*	1 year 7 months
Mr Ewoud Kulk	4 years 5 months
Mr Geoffrey Ricketts	4 years 5 months
Dr Zygmunt Switkowski	5 years 11 months
Mr Patrick Snowball	1 year 11 months

* Resigned 23 August 2011

– A Board appraisal is conducted annually which includes an assessment of future requirements in relation to Board composition and overall Board performance. The appraisal process for the Board is set out in greater detail later in this section.

Once it has been determined by the Nomination Committee that a new director is to be appointed, a search is undertaken for suitable candidates, based on selection criteria determined by the Board and utilising the services of external consultants. Nominations are subsequently received and reviewed by the Board.

1.4 Meetings of the Board

The Board generally meets monthly to consider matters relevant to the Suncorp Group's operations and performance; however, additional meetings are also held as required. The Board also meets with Senior Executives at least twice a year to consider matters of strategic importance to the Suncorp Group.

Prior to each meeting of directors, the non-executive directors meet in the absence of executive directors and any other management representatives. Senior Executives are invited to attend meetings where matters relevant to their respective business unit are to be considered.

The number of meetings of directors held over the course of the year and details of directors' attendance at those meetings are provided in the Directors' Report.

1.5 Director independence

As noted in 1.3 above, the Board must comprise a majority of non-executive directors who are independent. In line with the Recommendations, the Board will consider a director to be independent if he or she is not a member of management and is free of any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

When assessing whether a director has any relationships that could affect the director's independence, the Board considers a number of factors which are consistent with the Recommendations. The Board takes a qualitative approach to materiality and assesses independence on a case-by-case basis by reference to each director's particular circumstances rather than applying strict quantitative thresholds.

The following factors and relationships are considered by the Board in assessing whether a director is independent:

– being a substantial shareholder of the Company or of a company that has a substantial shareholding in the Company or being an officer of, or being otherwise associated with, either directly or indirectly, a substantial shareholder
– being employed in an executive capacity by the Suncorp Group within the last three years
– being a principal of a material professional adviser or a material consultant to the Group, within the last three years
– being, or being associated with, a material supplier or customer of the Suncorp Group
– being in a material contractual relationship with the Suncorp Group other than as a director of the Company; and
– having any other interest or relationship that could materially interfere with the director's ability to act in the best interests of the Company and independently of management.

Part 1. Board of Directors (continued)

1.5 Director independence (continued)

As at the date of this Statement, the Board considers all of the current non-executive directors to be independent. In reaching this view, the following matters were taken into consideration:

- Mr Geoffrey Ricketts is a director of Spotless Group Limited, the parent entity of a company that provided catering services to the Suncorp Group over the course of the year. The contractual arrangements between the Company and Spotless Services Australia Limited were in place prior to the date Mr Ricketts joined the Suncorp Board.
- Mr Ricketts also acted as a consultant for Russell McVeagh, Solicitors (NZ), which provided legal services to the Suncorp Group throughout the year.

The Board does not believe these relationships could affect the directors' independence in relation to any matter other than in the selection of a service provider. However, the selection of a service provider, other than for the provision of audit services or for matters of a strategic nature, is the responsibility of management and such decisions are made in the ordinary course of business, without any reference to any directors or the Board.

Accordingly, the Board has determined that, with respect to the above circumstances, none of the services provided were or are deemed material.

1.6 Conflicts of interest

Determinations regarding independence do not change a director's obligations in managing any conflict of interest that may arise between their duties as a director of the Company and their other interests and duties.

To ensure that any actual or potential conflict of interest is appropriately managed, the following procedures have been adopted by the Board:

- directors are required to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Suncorp Group; and
- where the Board believes a conflict exists, the director concerned is not to take part in any decision associated with the matter, including, as appropriate, not receiving the relevant Board papers, not being present at the meeting when the item is considered and not being informed of the decision taken.

1.7 Induction and education

The Company has an induction process for new directors which includes meeting with the Group CEO, members of the Senior Leadership Team and other senior managers about the nature of the business, current issues and the corporate strategy.

These meetings are held soon after a director's appointment to the Board.

Ongoing education for directors is provided through regular management presentations on certain key functions or business activities from across the Suncorp Group. The external auditors and industry experts also address the Board from time to time on matters relevant to the Suncorp Group business or its operating environment.

Most of the topics presented to the Board are determined in advance and form part of the annual meeting schedule.

Also, to ensure directors remain equally informed on all material matters impacting on the Suncorp Group's businesses, copies of the agendas for Board committee meetings are provided to all directors, and non-executive directors may attend meetings of any committee of which they are not a member, or they can choose to receive copies of particular papers or reports listed for discussion at those meetings.

1.8 Access to information and independent advice

Directors have unrestricted access to Company records and receive regular financial and operational reports from senior management for consideration at meetings of directors. Also, each director has entered into a deed with the Company that provides for access to documents, in certain circumstances, following their retirement as a director.

In accordance with the terms of its charter, the Board collectively, and each director individually, may take, at the Company's expense, such independent professional advice as is considered necessary to fulfil their relevant duties and responsibilities. A director seeking such advice must obtain the approval of the Chairman and such approval may not be unreasonably withheld. A copy of advice received by a director is made available to all other members of the Board except where the circumstances make that inappropriate.

1.9 Board appraisal

A performance appraisal of the Board is conducted annually. An independent consultant is engaged to facilitate the process, usually every second year, and the Chairman of the Board conducts the appraisal every other year.

However, the same methodology and processes (as summarised below) are followed for both internal and external reviews.

The appraisal includes completion of a questionnaire by, and/or interviews with each director and Senior Executive, the main objectives being to:

- assess the effectiveness of the Board as a whole in meeting the requirements of its charter
- assess the performance and contributions of individual directors, including the Chairman, in assisting the Board to fulfil its role; and
- identify Board processes and structures that require improvement.

The questionnaire results (if applicable) and a summary of the views expressed during the interviews in relation to each of the above matters, or any other matters that directors believe are relevant, are provided to directors in a report prepared by the consultants or the Chairman. The Board as a whole discusses the report and any recommendations for change or improvement are agreed.

Progress against each of the recommendations is assessed in subsequent Board reviews. In the years when the questionnaire is completed by an independent consultant, the results may also be benchmarked against other companies.

Following the interview process, the Chairman may also meet with individual directors to discuss any issues that may have arisen during the interview stage in relation to that director's performance.

A review, facilitated by external consultants, was conducted in accordance with the above process for the 2010/11 financial year.

Part 2. Board committees and New Zealand subsidiaries

2.1 Board committees

In order to provide adequate time for the Board to concentrate on strategy, planning and performance enhancement, the Board has delegated certain specific duties to Board committees. To this end, four Board committees have been established to assist and support the Board in the conduct of its duties and obligations.

The committees form an important part of the Suncorp Group's overall governance structure and therefore non-executive directors may attend meetings of any committee of which they are not a member or they can choose to receive copies of particular papers or reports listed for discussion at those meetings. Each committee has its own charter, which is approved by the Board and which defines the relevant committee's roles and responsibilities. Copies of the charters are available on the Company's website at www.suncorpgroup.com.au under 'Corporate Governance'.

The number of committee meetings held over the year and details of directors' attendance at those meetings are provided in the Directors' Report.

2.2 Board committee appraisals

The performance of the Audit, Risk and Remuneration committees are subject to an annual assessment of their effectiveness in meeting the requirements of their charters. The assessments are based on the results of questionnaires/checklists completed by each committee. The results are collated and a report submitted to the Board for consideration. On the basis of that assessment, committee membership and structure is confirmed or amended.

Assessments of the Audit, Risk and Remuneration Committees were conducted in accordance with the above process for the 2010/11 financial year. The performance of the Nomination Committee is reviewed as part of the Board appraisal, on the basis that all non-executive directors are members of the Nomination Committee.

2.3 New Zealand subsidiaries

The Suncorp Group's major operating entities in New Zealand include Vero Insurance New Zealand Limited (Vero NZ) and Asteron Life Limited. Governance oversight of these companies is provided through the respective board of directors, which in the case of Vero NZ, comprise independent non-executive directors, including Mr Geoffrey Ricketts, a director of the Company. Mr Ricketts is the Chairman of the board of each of the above companies.

COMMITTEE	MEMBERS AND COMPOSITION	ROLE
Audit	The members of the Audit Committee are: – Ms I Atlas (appointed 1 February 2011, resigned 30 June 2011) – Mr W Bartlett (Chairman until 31 August 2010) – Ms P Dwyer (Chairman from 1 September 2010) – Mr S Grimshaw (resigned 23 August 2011) Mr J Story is an ex-officio member of the Audit Committee. At the date of this Statement, the qualifications of the members of the Audit Committee satisfy the requirements of the ASX guidelines. Details of those qualifications are provided in the Directors' Report. At all times throughout the reporting period, the members of the Audit Committee were all non-executive directors. However, the Group CEO, Group Chief Financial Officer (Group CFO), and the internal and external auditor are invited to meetings at the Audit Committee's discretion. The Audit Committee also holds discussions with the auditors in the absence of management on a regular basis.	The primary role of the Audit Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to oversight of the Suncorp Group's financial and operational control environment. Specific issues addressed by the Audit Committee throughout the year, in accordance with its charter, included: – reviewing statutory reports and returns for lodgement with APRA – reviewing half-year and annual financial statements and reports prior to consideration by the Board – reviewing and assessing reports from management, the Appointed Actuary (general insurance) and the Appointed Actuary (life insurance), the Reviewing Actuary and the external auditors in relation to matters impacting on the half-year and annual financial statements – audit planning – reviewing and approving audit plans as submitted by both internal and external auditors and agreeing areas of audit emphasis and audit approach – reviewing the provision of non-audit services by the external auditor to assess whether there is any potential impact on the auditor's independence; and – reviewing internal and external audit reports and where weaknesses in controls or procedures have been identified, assessing whether remedial action taken by management is adequate and appropriate.

Part 2. Board committees and New Zealand subsidiaries (continued)

2.3 New Zealand subsidiaries (continued)

COMMITTEE	MEMBERS AND COMPOSITION	ROLE
Risk	The members of the Risk Committee are: – Ms I Atlas (appointed 1 February 2011) – Mr E Kulk (Chairman from 1 September 2010) – Dr Z Switkowski Mr J Story is an ex-officio member of the Risk Committee. Mr S Grimshaw (resigned 23 August 2011) Dr I Blackburne (retired 31 August 2010)	The role of the Risk Committee is to provide the Board with oversight across the Suncorp Group for all categories of risk, through the identification, assessment and management of risk and monitoring adherence to internal risk management policies and procedures. Specific issues addressed and activities undertaken by the Risk Committee throughout the year, in accordance with its charter, included: – review and approve the Suncorp Group's Risk Management Framework – review and confirm the Suncorp Group's risk appetite – review Line of Business risk reports and assess performance against risk appetite – review and approve stress test scenarios – oversight of the risk appetite, business planning and capital management development process – review and approve Suncorp Group policy framework and policy suite; and – review and approve risk management strategies and reinsurance management strategies as required by APRA.
Remuneration	The members of the Remuneration Committee are: – Ms I Atlas (appointed 1 February 2011) – Dr Z Switkowski (Chairman)* – Mr W Bartlett – Mr E Kulk Mr J Story is an ex-officio member of the Remuneration Committee.	The Remuneration Committee is responsible for making recommendations to the Board on: – the individual remuneration arrangements of the Group CEO, executives and person(s) or category of persons that may be specified by APRA – the size of the annual bonus/incentive pools – the remuneration of non-executive directors; and – the remuneration structure of the categories of persons covered by the Company's remuneration policy. During the year, the Remuneration Committee conducted a review of the Suncorp Group's remuneration framework, processes and policies, to identify and monitor implementation of any changes that may be required to comply with new prudential requirements on remuneration, issued by APRA on 30 November 2009, and which became effective 1 April 2010.
Nomination	The Nomination Committee comprises all the non-executive directors. Mr J Story is the Chairman of the Committee.	The Nomination Committee is responsible for: – reviewing Board composition – recommending the appointment of directors – approving appointments to Board committees – planning Board succession; and – approving the Board performance evaluation process.

* Dr Switkowski is currently Chairman of the Remuneration Committee and is also Board Chairman elect. In accordance with the Committee charter, Dr Switkowski will resign as Chairman of the Committee on or before the date of his appointment as Board Chairman. Ms I Atlas will be appointed Chairman of the Remuneration Committee following Dr Switkowski's resignation.

Part 3. Senior Executives

3.1 Functions delegated to management

The Board has delegated the following functions to management:

- development of corporate strategies and business plans in consultation with directors and implementing the corporate strategies approved by the Board
- making recommendations to the Board on significant strategic and business initiatives
- making recommendations to the Board or relevant Board committee on appointments to senior management roles
- development and maintenance of succession plans for senior management roles
- development of an annual budget for consideration by the Board and then to conduct the Suncorp Group's business activities within the approved budget limits
- development and maintenance of risk management systems and frameworks as approved by the Board or relevant Board committee; and
- managing the business in accordance with regulatory and legislative requirements and within the Suncorp Group's approved policy and procedures framework.

3.2 Senior Executive performance assessment

A system of balanced scorecards is used to establish performance measures and to monitor the performance of Senior Executives (including the Group CEO, the Senior Leadership Team and their direct reports) against those measures.

The performance measures contained in the scorecards are a mixture of financial and non-financial indicators and risk-related measures that align with the Suncorp Group and Business Unit business plans approved by the Board, and reflect the individual executive's overall accountabilities and responsibilities.

The Suncorp Group's performance management system also requires leaders to balance the scorecard result with the manner in which the results were obtained, as the overall performance of each Senior Executive is assessed having regard to the corporate values and the general manner in which the Senior Executive is seen to be supporting the desired corporate culture.

At the end of the financial year, the Group CEO conducts an assessment of the performance of each Senior Leadership Team member, relative to the balanced scorecard measures and peer group performance, in the context of industry and market conditions. Those assessments are submitted to the Remuneration Committee for review prior to submission to the Board as part of the remuneration review process.

The Group CEO's performance is subject to assessment by the Board at the end of the financial year. The Chairman then communicates the review outcomes as agreed by the Board to the Group CEO.

The Senior Executive performance assessments for year ended 30 June 2011 were conducted in accordance with the arrangements described above.

3.3 Senior Executive induction and education processes

When a new employee is appointed to a Senior Executive role within the Suncorp Group, they receive information and training on the Suncorp Group's key policies, practices and procedures as well as information relevant to the role they will be performing and the management and business structure within which they will be operating.

Persons appointed to Senior Executive roles, whether they are new or existing employees, are expected to have the qualifications and industry experience necessary to perform properly the particular duties and responsibilities of their role and to maintain those qualifications and expertise while they remain in that role. This is also a requirement under the APRA prudential standards which apply to all of the Suncorp Group's major operating entities.

Under the APRA *Fit and Proper Prudential Standard*, the Suncorp Group must maintain a Fitness and Propriety Policy, designed to assist in managing risks associated with the appointment of persons to roles that have a significant impact on the sound and prudent management of the Group.

Under the Group's Fitness and Propriety Policy, all Senior Executives and directors are subject to a formal assessment process at the time of appointment and on an annual basis thereafter, to confirm they possess and have maintained the necessary skills, knowledge and expertise to undertake and fulfil the particular duties and responsibilities of the position they hold within the APRA-regulated entity.

The Suncorp Group supports Senior Executives and other employees in maintaining and enhancing their industry and business knowledge and expertise, and associated professional qualifications.

Part 4. Risk management

4.1 Enterprise Risk Management Framework

Risk within the Suncorp Group is defined as any threat to the achievement of the Suncorp Group's objectives. The Suncorp Group has a structured risk management framework in place in respect of all key risks.

The Suncorp Group has adopted a risk management framework, incorporating the risk governance frameworks, policies, processes and practices which govern the monitoring, management, control and reporting of risks inherent within the business operations. The risk management framework is approved by the Risk Committee, and reviewed and updated on an annual basis.

4.1.1 Regulators

The Suncorp Group is a diversified financial services conglomerate, operating within the general insurance, banking and wealth management sectors and is therefore subject to APRA's prudential regulation framework. Accordingly, prudential requirements such as maintaining Board approved risk management strategies and reinsurance management strategies form part of the risk management framework. Also, many of the Suncorp Group's legal entities hold an Australian Financial Services Licence regulated by the Australian Securities & Investments Commission (ASIC) as part of the authorisation required for the provision of financial products or services.

Part 4. Risk management (continued)

4.1 Enterprise Risk Management Framework (continued)

4.1.2 Risk appetite

Risk appetite represents the nature and level of risk that the Board is willing to accept in the pursuit of strategic objectives.

The Board recognises the importance of risk appetite as a key component of setting the strategic direction of the Company, however it is also acknowledged that risk appetite is not something fixed and rigid. Rather, it is dynamic, evolving through time, and responding to a number of different drivers. These drivers include: capital strength; underlying performance of the business; staff capability and capacity; culture; systems capability; competitor behaviour; and exogenous macro-economic forces.

Critically linked to capital management, risk appetite is set at both the Suncorp Group and Line of Business levels, with risk articulated in the form of:

– quantitative measures: such as appetite and tolerance for volatility in capital and earnings, which are measures that relate directly to business plans, risk limits and stress test scenarios
– qualitative considerations: which underpin the way risk is managed across the Suncorp Group; and
– zero tolerance: areas where the Board has no appetite for risk.

When approving Suncorp Group risk appetite, the Board considers:

– the competing requirements and constraints imposed by key stakeholders and the current risk profile of the Group
– the strategic direction of the Suncorp Group and the future capital needs based on these strategies; and
– the potential impact of significant and plausible stress scenarios to the Group's overall financial position.

An activity was conducted during the year to refine the Suncorp Group's risk appetite. This activity elicited preferences of the Board when making business decisions to help inform the Suncorp Group's risk appetite. Each Line of Business has a risk appetite statement relevant to their business, but which is aligned with the parameters set at the Suncorp Group level. In conjunction with capital plans and business plans, Line of Business risk appetite statements and the Suncorp Group risk appetite statement are reviewed and evaluated by the Group CRO, Group CFO and Risk Committee and approved by the Board.

4.1.3 Risk categorisation and policy setting

The universe of risks managed by the Suncorp Group includes strategic, compliance, credit, market, balance sheet, liquidity, insurance and operational risk. Policies, procedures, limits and other controls are in place either at the Group or Line of Business level to manage these risks and align them with the Suncorp Group's risk appetite, as depicted in the table below.

Counterparty risk		
The risk that a borrower or counterparty will not meet its obligations in accordance with agreed terms. Counterparty risk arises in Banking through lending and trading counterparties. In General Insurance and Life, counterparty risk arises as a result of receivables due from policyowners and intermediaries, the placement of reinsurance programs with counterparties and investment in financial instruments.		
Suncorp Group Counterparty Risk Policy	*Bank Credit Risk Policy*	*Investment Mandates (General Insurance & Life)*
Market risk		
The risk of unfavourable changes in interest rates, foreign exchange rates, equity prices, credit spreads, market volatilities and liquidity. Market risk arises from exposures to interest rates and foreign exchange rates in trading and non-trading activities in Banking. Market risk in General Insurance and Life arises from the risk of adverse movements in interest rates, foreign exchange rates, equity prices, credit spreads and prices of other financial contracts, including derivatives.		
Traded Market Risk Policy (Bank)	*Investment Mandates (General Insurance & Life)*	
Asset and Liability risk		
The risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term. Asset and Liability risk arises at a Group level from the structure and characteristics of assets and liabilities and in the mismatch of their repricing dates.		
Non-Traded Market Risk Policy (Bank)	*Investment Mandates (General Insurance & Life)*	
Liquidity risk		
The risk that the Suncorp Group will be unable to service its cash flow obligations today or in the future. In Banking, liquidity risk arises from mismatches in the cash flows of financial transactions or the inability of financial markets to absorb the transactions of the Bank. In General Insurance and Life, liquidity risk arises from the requirement to make claim payments in a timely manner.		
Suncorp Group Liquidity Policy	*Investment Mandates (General Insurance & Life)*	*Bank Liquidity Policy*

Insurance risk The risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, concentration risk, reserving, claims management or reinsurance management. Insurance risk arises in General Insurance and Life due to risks relating to the uncertainty of cash flows from insurance contracts.		
Insurance Risk Policy (General Insurance)	*Reinsurance Policies (General Insurance)*	*Investment Mandates (General Insurance & Life)*
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. These include internal and external fraud, system failure, natural disasters, business interruption, risks associated with business practices, vendors, suppliers, service providers, employment practices and workplace safety.		
Operational Risk Policy	*Business Continuity Policy*	*Financial Crimes Policy*
Procurement Policy	*Outsourcing Policy*	
Project & Portfolio Management Policy	*Product Approval Policy*	*Human Resource Policies*
Expenditure Delegations of Authority Policy	*Health & Safety Policies*	
Compliance risk The risk of legal or regulatory sanctions, financial loss or reputational damage the Suncorp Group may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and good practice standards.		
Compliance Policy	*Breach and Regulatory Management Policy*	*Fit & Proper Policy*
Privacy Policy	*Conflicts of Interest Policy*	*Whistleblower Policy*
Strategic risk The risk of loss arising from uncertainty about the future operating environment, including reputation, industry, economic and regulatory environment, branding, crisis management, alliances and suppliers. Strategic risks relate to the Suncorp Group's business strategy and tactical initiatives that are articulated in business plans.		
Strategic Investments Assessments Policy	*Strategic risk assessments within Business Plans*	*Risk Appetite Statements*

4.1.4 Risk committee structures

Within the enterprise risk management framework, an accountabilities model clearly establishes roles and responsibilities for managing risk. The Management Risk Committees are an important part of the accountabilities model with a number of committees in place. These committees comprise executive representation from both Suncorp Group and Line of Business as appropriate. A subset of these committees operate with Board Risk Committee-approved charters, delegations and limits. Current key management committees include:

- Group Asset & Liability Committee
- Bank Credit Risk Committee
- Bank Asset & Liability Committee
- Bank Operational Risk Committee
- Suncorp Life Asset & Liability Committee
- Suncorp Life Operational Risk Committee
- Suncorp Life Breach Committee
- General Insurance Asset & Liability Committee
- General Insurance Risk & Governance Committee
- General Insurance Breach Committee
- Crisis Management Team
- Vero New Zealand Asset & Liability Committee
- Vero New Zealand Risk & Governance Committee

4.2 Internal control framework

As part of the risk management framework, internal controls have been implemented across the Suncorp Group to ensure appropriate risk identification, assessment, control, management, monitoring and reporting. This section outlines some of the key elements of those internal controls.

4.2.1 Compliance

The Suncorp Group Compliance Policy mandates the Suncorp Group will conduct its business in compliance with all laws, rules, regulations, standards and codes, internal policies and procedures. To ensure this occurs, senior management completes a monthly automated due diligence questionnaire to report the Suncorp Group's regulatory and operational compliance status, including both actual and potential breaches. All matters identified within the due diligence report are retained on each subsequent monthly report until the matter is resolved to the satisfaction of management, a Board committee, or the Board itself, depending on the circumstances.

Policies and procedures have been developed to also ensure open communications occur between the Suncorp Group and its primary regulators in a timely manner, namely:

- that all material correspondence between the Suncorp Group and regulators is referred to the Board or relevant Board committee; and
- that the Suncorp Group notify ASIC and APRA of any reportable breaches.

Part 4. Risk management (continued)

4.2 Internal control framework (continued)

4.2.2 Risk Committee reporting

The Risk Committee engages in a quarterly conversation with management to assess current and emerging risks, identified through the Line of Business and Group risk reporting process. Each Line of Business also reports to the Risk Committee on the performance of its business against target dimensions, as contained in risk appetite statements, and updated stress testing scenario results are provided to the Risk Committee on a six-monthly basis. Matters are referred to the Board by the Risk Committee from time to time for consideration and approval in accordance with delegated authorities and regulatory requirements.

4.2.3 Financial reporting

The Board receives reports on a monthly basis from management on the financial performance of each business unit and the Suncorp Group, including details of all key financial and business results reported against budget, with regular updates on yearly forecasts.

When the Board considers the statutory financial statements and reports for the Suncorp Group in February and August each year, written certifications regarding the integrity of those financial statements and the Suncorp Group's risk management and internal compliance and control systems are provided by the Group CEO, Group CFO and Group Chief Risk Officer (Group CRO).

For the financial year ended 30 June 2011, the Group CEO, Group CFO and Group CRO have provided:

- a declaration regarding the integrity of the financial statements of the Suncorp Group; and
- assurance that the Suncorp Group's risk management and internal compliance and control systems are operating effectively in all material respects.

These certifications meet the requirements of s 295A of the *Corporations Act 2001* (Cth).

The certifications provided by the Group CEO, Group CFO and Group CRO are based on responses provided by Senior Executives and management representatives to a management certification questionnaire, which is designed to provide an assurance to directors on matters that may impact the financial statements of Suncorp Group companies.

4.2.4 APRA declarations

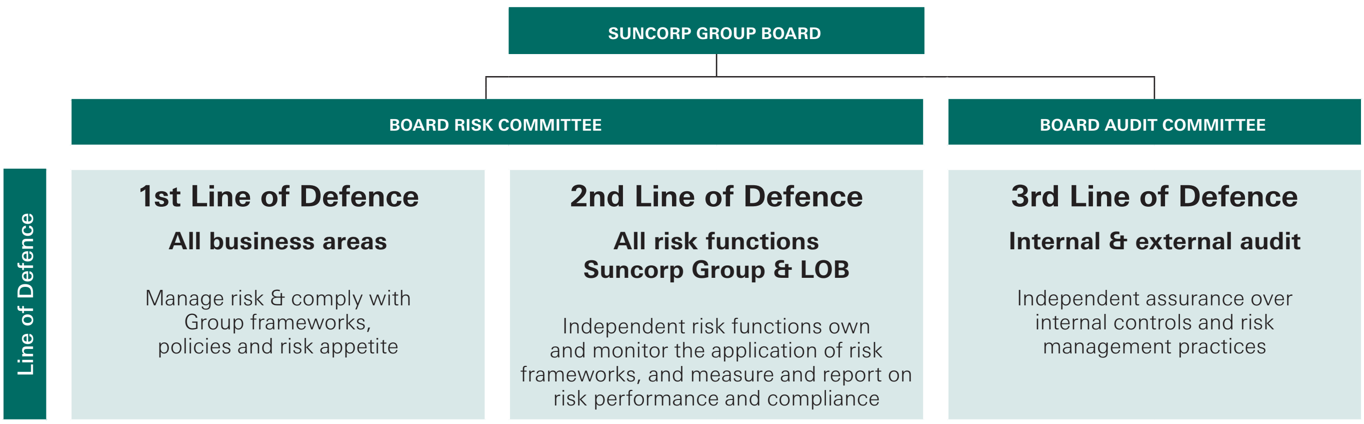
In accordance with APRA regulations, each regulated entity is required to submit to APRA on an annual basis a risk management declaration, confirming the adequacy of the regulated entity's risk management systems.

The risk management declarations, approved by the Board, are based on reports considered and reviews conducted by the Risk Committee during the course of the year and on the representations provided to the Board by management in regard to the adequacy of the Suncorp Group's risk management systems for each category of risk.

4.3 Risk management accountabilities

4.3.1 Three lines of defence

Accountabilities for risk management within the Suncorp Group are based upon the three lines of defence model.



4.3.2 Specific accountabilities

The role of the **Risk Committee** is to oversee the adequacy and effectiveness of the risk management frameworks and processes within the Group. The Risk Committee has delegated authority from the Board to approve and oversee the processes used to identify, evaluate and manage risk. At its discretion, the Risk Committee may make recommendations to the Board, including recommendations on the Group's risk appetite.

Group Chief Executive Officer (Group CEO) – the Board has delegated to the Group CEO authorities and limits for key risks facing the Suncorp Group and the authority to commit and make operational and capital expenditures. The Group CEO has discretion to delegate these authorities and limits to management.

The **Senior Leadership Team**, comprising the Group CEO, Line of Business CEOs and Senior Executives, provides executive oversight and direction-setting across the Group, taking risk considerations into account.

The **Group Chief Risk Officer (Group CRO)**, a member of the Senior Leadership Team, is responsible for promoting and supporting risk considerations with the Senior Leadership Team. The Group CRO is charged with overall accountability for the Risk Management Framework and the overall risk management capability. The Group CRO reports to the Group CEO.

Management – Line of Business CEOs and Senior Executives have a mandate and an obligation to manage risk in accordance with the Board-approved risk appetite statements and more broadly in accordance with the Suncorp Group's risk policies. **Chief Risk Officers (CROs)**, have formal lines of accountability to both their Line of Business CEO and the Group CRO which create greater ownership, understanding and awareness of risk. During the year dedicated CROs were appointed in Suncorp Life and Suncorp Business Services. CROs are also in place in General Insurance and Suncorp Banking.

Internal Audit provides independent testing and verification of the efficacy of corporate standards and business unit compliance, validates the overall risk framework and provides assurance that the risk management process is functioning as designed. Internal Audit provides reports to both the Audit Committee and Risk Committee and under the Internal Audit Charter adopted by the Audit Committee, members of the internal audit department have full, free and unrestricted access to all Suncorp Group activities, records, property and personnel. The internal audit function is independent of the external auditor.

4.4 External audit

External auditor engagement

The Audit Committee is responsible for recommending to the Board the appointment and removal of the external auditor and for determining the terms of engagement. The Suncorp Group's external audit engagements were last put to tender in April 2002 and the Audit, Business Risk & Compliance Committee (as the Audit Committee was called at the time) was responsible for the oversight and administration of the tender process including:

- determining the tender/selection process to be followed and identifying key issues to be addressed
- selecting the firms invited to tender
- making presentations to the tendering firms
- receiving and assessing presentations from the tendering firms; and
- making a recommendation to the Board.

At the date of this report, the Suncorp Group's auditor is KPMG. KPMG have a partner rotation policy that requires the signing and engagement partner to change every five years in accordance with the requirements of the *Corporations Act 2001*. The Board has endorsed that rotation policy.

External auditor independence

The external auditor provides a written report to each Audit Committee meeting, on audit and non-audit services provided to the Suncorp Group over the period since the last report to the committee and the fees charged for those services.

These reports also confirm that the auditor has maintained their independence in relation to the Suncorp Group having regard to relevant policies, professional rules and statutory requirements.

Attendance at Annual General Meetings

The Suncorp Group's external auditor is required to attend the Company's Annual General Meetings (AGMs) and shareholders are made aware at each AGM that the auditor is available to address questions relevant to the conduct of the audit and the preparation and content of the auditor's report.

Part 5. Policies

Governance policies of general application throughout the Suncorp Group

5.1 Remuneration

The remuneration policies and structures in place for employees, management and directors over the reporting period, including full details of directors' and executives' benefits and interests, are explained in the Remuneration Report (part of the Directors' Report).

Part 5. Policies (continued)

5.2 Dealings in Company securities

The Company's Constitution permits directors to acquire securities in the Company, however the Board has adopted a securities dealing policy that prohibits directors and senior management from dealing in Suncorp securities at any time while in possession of price-sensitive information and for a 30-day period prior to:

- the release of the Company's half-year and annual results to the ASX
- the AGM, and
- any major announcements.

Directors or employees of the Suncorp Group or their Associates:

(a) must not engage in short-term trading of Suncorp securities

(b) must not use Suncorp securities as collateral in any financial transaction; including
  - entering into a margin lending arrangement in respect of Suncorp securities, and
  - transferring Suncorp securities into an existing margin loan account,

  unless a waiver has been granted by the Chairman or Managing Director upon such terms and conditions as the person granting the waiver sees fit

(c) must not enter into a transaction that is designed to limit the economic risk of a holding in unvested Suncorp securities (i.e. a hedging transaction).

The following approvals must be obtained before a director or officer may deal in Suncorp securities:

- all directors (including the executive director) must advise the Chairman of the Board
- the Chairman must advise the Chairman of the Audit Committee, and
- senior managers must advise the Group CEO.

The granting of approval to deal in the Suncorp securities is coordinated by the Company Secretary who is also responsible for reporting all transactions by directors and Senior Executives to the Board.

In accordance with the provisions of the *Corporations Act 2001* and the ASX Listing Rules, the Company advises the ASX of any transaction conducted by directors in the securities of the Company.

The securities dealing policy is made available to employees through the Company's internal compliance and governance intranet sites and a formal advice on the terms of that policy is issued to all senior managers at least twice a year, usually in the month prior to the release of the Company's annual and half-year financial results.

A copy of the Suncorp Group securities dealing policy, as amended in December 2010 following amendments to the ASX Listing Rules, is available on the Company's website at www.suncorpgroup.com.au under 'Corporate Governance'.

5.3 Code of conduct

A code of conduct has been adopted by the Suncorp Group and is available on the Company's website at www.suncorpgroup.com.au under 'Corporate Governance'.

The *Suncorp Code of Conduct* outlines the standards of behaviour that are expected of all directors, executives, management and employees and describes the values that underpin the way we conduct our business.

In addition to the *Suncorp Code of Conduct*, the Group's main business activities are also subject to a number of industry codes such as the *General Insurance Code of Practice* and the *Banking Code of Conduct*.

There are also a number of internal policies in place as part of a compliance framework to monitor and encourage adherence with the Suncorp Code of Conduct and industry codes. The key related policies are:

- Conflicts of Interest Policy
- Whistleblower Policy, and
- Securities Dealing Policy.

The Company monitors compliance with the Code and its various other policies using an internal due diligence system, as described earlier in this Statement under 'Internal Control Framework'.

5.4 Diversity

The Suncorp Group policy on diversity is contained within its Equal Employment Opportunity and Diversity Policy, a summary of which is available on the Company's website at www.suncorpgroup.com.au under 'Corporate Governance'.

In support of the above Policy, the Board has approved a Diversity Strategy for 2011/14, with the objective of achieving a workforce that is representative of the macro-employment base, the customers with whom we interact, and the communities within which we operate.

Central to the Suncorp Group diversity policy are the following concepts:

- *Suncorp considers diversity in our workforce to be inclusive of age, gender, family responsibilities, marital status, cultural background, ethnicity, religion, sexual orientation, socio-economic background, women in senior leadership roles, Aboriginal and Torres Strait Islanders, people with physical or mental disability and those with English as a second language*
- *Promoting the principles of equality of opportunity throughout the Suncorp Group*
- *Recruitment, selection or promotion will be based on merit, aptitude and ability;*
- *Creating a workforce that reflects the diversity of the communities in which we operate.*

The Diversity Strategy 2011/14 outlines a range of initiatives to achieve greater diversity within the organisation, including measurable objectives to attain gender diversity in leadership positions. The implementation of the policy is overseen by a Diversity Council, led by the Group CEO.

Consistent with the key concept of our diversity policy, the Board has set an objective to increase the proportion of women in senior leadership (a combination of strategic leader and business leader roles) from the current level of 31% to 33% by the end of financial year 2014.

The Board will continue to review progress against this target and report to shareholders annually.

For the year ended 30 June 2011, the proportion of women employed by the Suncorp Group was as follows:

BOARD OF DIRECTORS	22%
Senior Leader	31%
Workforce	58%

5.5 Continuous disclosure and shareholder communication

Continuous disclosure – the Company has policies and procedures in place to ensure all shareholders and investors have equal access to the Company's information, and that all price-sensitive information in relation to the Company's listed securities is disclosed to the ASX in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

The Executive General Manager Group Corporate Affairs & Investor Relations has primary responsibility for all communications with the ASX and all Company announcements are available via the Company's website following release to the ASX. A copy of the Company's disclosure policy is available on the Company's website at www.suncorpgroup.com.au under 'Corporate Governance'.

Shareholder communication – the Suncorp Group is committed to:

- keeping its shareholders and the investment market fully informed on all matters that are relevant or material to its financial performance, and
- avoiding the disclosure of material information to anyone on a selective basis.

Information is disseminated primarily through timely announcements to the ASX. Those announcements are published on our website immediately following release by the ASX, enabling access to the broader investment community.

Direct communication with shareholders regarding the Suncorp Group's performance also occurs on a regular basis through the distribution of annual reports (on request) in September each year, and also through letters from the Chairman and Group CEO following the release of the full year and half-year results in August and February respectively, and following the AGM.

Shareholders can elect to receive all such communications through the post or in electronic format and can also lodge direct votes and proxy votes online through the website of the Company's share registrars, Link Market Services Limited. Details are in the AGM documents issued to shareholders.

The AGM, which is usually held in October each year and is webcast live, allows shareholders to address the Board and management directly on matters regarding the Suncorp Group's performance.

Full details of the Disclosure Policy and the Shareholder Communications Strategy, which governs how we communicate with our shareholders, are available on the Company's website at www.suncorpgroup.com.au.

Consolidated statement of comprehensive income

for the year ended 30 June 2011

	Note	CONSOLIDATED 2011 $m	2010 $m
Revenue			
Insurance premium income		**7,874**	7,645
Reinsurance and other recoveries income		**4,786**	1,506
Banking interest income		**4,401**	4,022
Investment revenue	9.1	**1,358**	1,570
Other income	9.2	**614**	939
Total revenue		**19,033**	15,682
Expenses			
General Insurance claims expense		**(9,331)**	(5,966)
Life insurance claims and policyowner liabilities expense		**(862)**	(848)
Outwards reinsurance premium expense		**(1,001)**	(766)
Interest expense		**(3,532)**	(3,149)
Fees and commissions expense		**(485)**	(545)
Operating expenses	10	**(2,654)**	(2,765)
Impairment expense	7.5.2	**(325)**	(479)
Loss on sale of subsidiaries		**(109)**	–
Outside beneficial interests in managed funds		**(32)**	(46)
Total expenses		**(18,331)**	(14,564)
Profit before income tax		**702**	1,118
Income tax expense	11.1	**(245)**	(329)
Profit for the financial year		**457**	789
Other comprehensive income			
Net change in fair value of cash flow hedges	22	**60**	204
Net change in fair value of available-for-sale financial assets	22	**31**	13
Exchange differences on translation of foreign operations	22	**(39)**	9
Actuarial (losses) gains on defined benefit plans	13.3	**(11)**	5
Other movements		**–**	6
Income tax expense on other comprehensive income	11.3.2	**(21)**	(60)
Other comprehensive income net of income tax		**20**	177
Total comprehensive income for the financial year		**477**	966
Profit for the financial year attributable to:			
Owners of the Company		**453**	780
Non-controlling interests		**4**	9
Profit for the financial year		**457**	789
Total comprehensive income for the financial year attributable to:			
Owners of the Company		**473**	957
Non-controlling interests		**4**	9
Total comprehensive income for the financial year		**477**	966
		Cents	Cents
Earnings per share:			
Basic earnings per share	3	**35.56**	61.81
Diluted earnings per share	3	**35.56**	60.10

The consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

Consolidated statement of financial position

as at 30 June 2011

		CONSOLIDATED	
	Note	2011 $m	2010 $m
Assets			
Cash and cash equivalents	24.2	**1,271**	883
Receivables due from other banks	24.2	**226**	232
Trading securities	7.2	**4,952**	8,233
Derivatives	14	**166**	833
Investment securities	15.2	**24,014**	21,091
Banking loans, advances and other receivables	7.4	**48,639**	51,146
General Insurance assets	6.5	**8,054**	4,550
Life assets	8.5	**671**	651
Property, plant and equipment	16	**351**	358
Deferred tax assets	11.3	**148**	101
Other assets	17	**686**	634
Goodwill and intangible assets	18	**6,310**	6,627
Total assets		**95,488**	95,339
Liabilities			
Deposits and short-term borrowings	7.6	**38,858**	33,958
Derivatives	14	**2,580**	2,461
Payables due to other banks	24.2	**31**	28
Payables and other liabilities	19	**2,224**	2,286
Current tax liabilities	11.2	**145**	1
General Insurance liabilities	6.6	**14,831**	11,556
Life liabilities	8.6	**6,183**	6,139
Managed funds unit on issue		**701**	437
Securitisation liabilities	7.7	**3,532**	4,710
Debt issues	7.8	**10,031**	16,759
Subordinated notes	20	**1,524**	2,182
Preference shares	7.10	**830**	869
Total liabilities		**81,470**	81,386
Net assets		**14,018**	13,953
Equity			
Share capital	21	**12,662**	12,618
Reserves	22	**33**	74
Retained profits		**1,306**	1,241
Total equity attributable to owners of the Company		**14,001**	13,933
Non-controlling interests		**17**	20
Total equity		**14,018**	13,953

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the year ended 30 June 2011

		CONSOLIDATED					
		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 2009		12,425	(123)	921	13,223	6	13,229
Profit for the financial year		–	–	780	780	9	789
Other comprehensive income		–	166	11	177	–	177
Total comprehensive income		–	166	791	957	9	966
Transactions with owners, recorded directly in equity							
Issue of ordinary shares	21	195	–	–	195	–	195
Dividends paid	4	–	–	(440)	(440)	(2)	(442)
Share-based payments		2	–	–	2	–	2
Treasury share movements		(4)	–	–	(4)	–	(4)
Transfers		–	31	(31)	–	–	–
Other movements		–	–	–	–	7	7
Balance as at 30 June 2010		**12,618**	**74**	**1,241**	**13,933**	**20**	**13,953**
Profit for the financial year		**–**	**–**	**453**	**453**	**4**	**457**
Other comprehensive income		**–**	**28**	**(8)**	**20**	**–**	**20**
Total comprehensive income		**–**	**28**	**445**	**473**	**4**	**477**
Transactions with owners, recorded directly in equity							
Issue of ordinary shares	21	**42**	**–**	**–**	**42**	**–**	**42**
Dividends paid	4	**–**	**–**	**(444)**	**(444)**	**(4)**	**(448)**
Share-based payments		**11**	**–**	**–**	**11**	**–**	**11**
Treasury share movements		**(9)**	**–**	**–**	**(9)**	**–**	**(9)**
Transfers		**–**	**(69)**	**69**	**–**	**–**	**–**
Purchase of non-controlling interest		**–**	**–**	**(5)**	**(5)**	**(3)**	**(8)**
Balance as at 30 June 2011		**12,662**	**33**	**1,306**	**14,001**	**17**	**14,018**

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

for the year ended 30 June 2011

	Note	CONSOLIDATED 2011 $m	2010 $m
Cash flows from operating activities			
Premiums received		**8,672**	8,388
Claims paid		**(7,680)**	(6,518)
Interest received		**5,033**	4,759
Interest paid		**(3,483)**	(3,143)
Reinsurance and other recoveries received		**2,128**	1,387
Outwards reinsurance premiums paid		**(1,082)**	(824)
Other operating income received		**969**	997
Dividends received		**279**	52
Operating expenses paid		**(3,832)**	(3,739)
Income tax paid		**(176)**	(381)
Net decrease (increase) in operating assets			
Trading securities		**3,278**	(1,550)
Banking loans, advances and other receivables		**2,188**	2,684
Net increase (decrease) in operating liabilities			
Deposits and short-term borrowings		**4,760**	(3,774)
Net cash from (used in) operating activities	24	**11,054**	(1,662)
Cash flows from investing activities			
Proceeds from sale of investment securities		**25,555**	25,584
Payments for purchase of investment securities		**(28,219)**	(26,064)
Proceeds from other investing activities		**102**	485
Payments for other investing activities		**(164)**	(175)
Net cash (used in) investing activities		**(2,726)**	(170)
Cash flows from financing activities			
Net (decrease) increase in borrowings		**(6,945)**	1,134
Payment on call of subordinated notes		**(524)**	(326)
Dividends paid on ordinary shares		**(403)**	(245)
Payments for reset preference share redemption		**(42)**	–
Payments for other financing activities		**(19)**	(21)
Net cash (used in) from financing activities		**(7,933)**	542
Net increase (decrease) in cash and cash equivalents		**395**	(1,290)
Cash and cash equivalents at the beginning of the financial year		**1,087**	2,445
Cash balances disposed during the financial year	28	**(16)**	(68)
Cash and cash equivalents at the end of the financial year	24.2	**1,466**	1,087

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

1. Suncorp Group restructure

On 7 January 2011, the **Suncorp Group**, being Suncorp Group Limited and its subsidiaries, completed a restructure which resulted in a non-operating holding company, Suncorp Group Limited (the **Company**) replacing Suncorp-Metway Ltd (**SML**) as the ultimate parent of the Group. Following the restructure, the Suncorp Group is comprised of three separate lines of business, **General Insurance**, **Banking**, and **Life**, each with their own non-operating holding companies. The three lines of business and corporate activities (**Corporate**) collectively form the four business areas of the Suncorp Group. SML became a subsidiary of the Company following the restructure and is included in the Banking business area.

The restructure was effected by a scheme of arrangement which was approved by SML shareholders on 15 December 2010. Approval was also obtained from the Federal Treasurer, the Australian Prudential Regulation Authority (APRA) and the Supreme Court of Queensland. On restructure, ordinary shareholders of SML, with the exception of a small number of ineligible foreign shareholders, obtained one ordinary share in the Company for each ordinary share they held in SML prior to the implementation of the restructure.

The Company's consolidated financial statements are presented as a continuation of the consolidated SML financial statements. The comparative information presented is consistent with the disclosures made in the consolidated financial statements of SML for the year ended 30 June 2010. Comparative earnings per share calculations for the year ended 30 June 2010 were not affected as a result of the restructure.

2. Basis of preparation

The Company is a public company domiciled in Australia and the address of the Company's registered office is Level 18, 36 Wickham Terrace, Brisbane, Qld, 4000.

The consolidated financial statements for the year ended 30 June 2011 comprise the Company and its subsidiaries. The financial statements were authorised for issue by the Board of Directors on 24 August 2011.

The Suncorp Group has applied amendments to the *Corporations Act 2001* that remove the requirement for the Suncorp Group to include parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 26.1.

The consolidated financial statements have been prepared on the historical cost basis unless the application of fair value measurements are required by relevant accounting standards. An exception exists regarding the measurement of defined benefit superannuation scheme surplus (deficit) which is described in note 33.1.20.

Significant accounting policies applied in the preparation of these consolidated financial statements are set out in note 33. There have been no changes to the recognition and measurement accounting policies during the year.

The Suncorp Group's risk management objectives and structure including the risk management of exposures arising from financial instruments are detailed in note 34.

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

These consolidated financial statements are presented in Australian dollars which is the Company's functional and presentation currency and the functional currency of the majority of subsidiaries.

As the Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, all financial information presented in Australian dollars has been rounded to the nearest one million dollars unless otherwise stated.

2.1 Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements of the Suncorp Group comply with the International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

2.2 Use of estimates and judgements

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

Significant estimates, judgements and assumptions are discussed in the following notes:

- General Insurance – outstanding claims liabilities, assets arising from reinsurance contracts and other recoveries (refer note 6.6.2(c))
- Banking – specific and collective provisions for impairment (refer note 33.1.16(a))
- Life – net policy liabilities (refer note 8.7)
- impairment of goodwill and other intangible assets (refer note 18.1); and
- valuation of financial instruments and fair value hierarchy disclosures (refer note 25).

3. Earnings per share (EPS)

	CONSOLIDATED	
	2011 $m	2010 $m
Profit attributable to ordinary equity holders of the Company (basic)	**453**	780
Interest expense on reset preference shares (net of tax)	–	7
Interest expense on convertible preference shares (net of tax)	–	37
Profit attributable to ordinary equity holders of the Company (diluted)	**453**	824
	Number of shares	Number of shares
Weighted average number of ordinary shares (basic)	**1,273,729,887**	1,262,068,396
Effect of conversion of reset preference shares	–	18,015,915
Effect of conversion of convertible preference shares	–	90,523,478
Weighted average number of ordinary shares (diluted)	**1,273,729,887**	1,370,607,789
Basic – cents per share	**35.56**	61.81
Diluted – cents per share	**35.56**	60.10

4. Dividends

	CONSOLIDATED			
	2011		2010	
	¢ per share	$m	¢ per share	$m
Dividend payments on ordinary shares [1]				
2010 final dividend (2010: 2009 final dividend)	**20**	**254**	20	250
2011 interim dividend (2010: 2010 interim dividend)	**15**	**190**	15	190
Total dividends on ordinary shares	**35**	**444**	35	440
Dividends not recognised in the statement of financial position [1]				
Since financial year end, the 2011 final dividend (2010: 2010 final dividend) has been proposed [2]	**20**	**255**	20	255

Notes

1 All dividends paid, declared and proposed are franked at a 30% tax rate (2010: 30%).

2 The total 2011 final dividend proposed but not recognised in the statement of financial position is estimated based on the total number of ordinary shares on issue net of treasury shares as at 30 June 2011. The actual amount recognised in the consolidated financial statements for the financial year ending 30 June 2012 will be based on the actual number of ordinary shares on issue net of treasury shares on the record date.

The franked portion of the proposed dividends will be franked out of existing franking credits or franking credits arising from the payment of income tax. Franking credits available for use in subsequent financial years as at 30 June 2011 amount to $740 million (2010: $633 million). The impact on the dividend franking account for the proposed dividends is expected to reduce the account balance by $110 million (2010: $110 million).

The franking credits available for use in subsequent financial years is adjusted for:

- franking credits that will arise from the payment of the current tax liabilities
- franking debits that will arise from the payment of dividends recognised as a liability at financial year end
- franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at year end; and
- franking credits that the Company may be prevented from distributing in subsequent years.

5. Segment reporting

Operating segments are identified based on separate financial information which is regularly reviewed by the Group Chief Executive Officer and his immediate executive team, representing the Suncorp Group's Chief Operating Decision Maker (CODM), in assessing performance and determining the allocation of resources. The Suncorp Group's operating segments are determined based on their business activities as described in note 5.1 below.

5.1 Operating segments

The Suncorp Group comprises the following operating segments:

SEGMENT	BUSINESS AREA	BUSINESS ACTIVITIES
Personal Insurance (Personal)	General Insurance	Provision of personal insurance products to customers in Australia including home and contents insurance, motor insurance and travel insurance.
Commercial Insurance (Commercial)	General Insurance	Provision of commercial insurance products to customers in Australia including commercial motor insurance, commercial property insurance, marine insurance, industrial special risks insurance, public liability and professional indemnity insurance, workers' compensation insurance and compulsory third party insurance.
General Insurance – New Zealand (GI NZ)	General Insurance	Provision of general insurance products to customers in New Zealand including home and contents insurance, marine insurance, business insurance, rural insurance, construction and engineering insurance, travel insurance, public liability and professional indemnity, and directors' and officers' liability.
Banking	Banking	Provision of personal and commercial banking, agribusiness, property and equipment finance, home, personal and small business loans, savings and transaction accounts and foreign exchange and treasury products and services in Australia.
Life	Life	Provision of life insurance products, superannuation administration services, financial planning and funds administration services in Australia and New Zealand.
Corporate	Corporate	Investment of the Suncorp Group's surplus capital, Suncorp Group business strategy activities (including business combinations and divestments) and Suncorp Group shared services.

While profit or loss information are reviewed by the CODM at an operating segment level, assets and liabilities information are reviewed by the CODM at a business area level. Business areas are equivalent to operating segments except for the Personal Insurance, Commercial Insurance and General Insurance New Zealand operating segments which are aggregated as the General Insurance business area.

Segment results presented below are measured on a consistent basis to how they are reported to the CODM:

- Revenues and expenses occurring between segments are subject to contractual agreements between the legal entities comprising each segment.
- Inter-segment transactions which are eliminated on consolidation are reported on a gross basis except for operating expenses incurred by one segment on behalf of another which are recharged on a cost-recovery basis that are presented on a net basis (post allocation basis).
- Intra-group dividends are presented net of eliminations.
- Consolidated gain or loss on sale of subsidiaries and joint ventures and any amortisation of business combination acquired intangible assets are allocated to the Corporate segment regardless of whether the related assets and liabilities are included in the Corporate segment assets and liabilities.
- Depreciation and amortisation expenses relating to the Corporate segment's property, plant and equipment and non-business combination acquired intangible assets are allocated to other segments based on their utilisation.
- Goodwill is allocated to each operating segment on a consistent basis to goodwill impairment testing (note 18.1).

Comparative segment information has been represented to reflect the operating segments above which came into effect following the Suncorp Group restructure on 7 January 2011.

BUSINESS AREAS	General Insurance				Banking	Life	Corporate	
OPERATING SEGMENTS	Personal $m	Commercial $m	GI NZ $m	Total $m	Banking $m	Life $m	Corporate $m	Segment total $m
2011								
Revenue from external customers	5,828	3,601	3,195	12,624	4,545	1,844	19	19,032
Inter-segment revenue	2	3	–	5	65	9	1	80
Total segment revenue	5,830	3,604	3,195	12,629	4,610	1,853	20	19,112
Segment profit (loss) before income tax	93	558	(88)	563	145	223	(239)	692
Segment income tax expense	(28)	(169)	26	(171)	(61)	(74)	60	(246)
Segment profit (loss) after income tax	65	389	(62)	392	84	149	(179)	446
Other segment disclosures								
Interest revenue	187	407	26	620	4,404	49	16	5,089
Interest expense	(58)	(31)	–	(89)	(3,494)	(3)	–	(3,586)
Depreciation and amortisation expense	(31)	(35)	(15)	(81)	(42)	(8)	(149)	(280)
Impairment losses on banking loans and advances	–	–	–	–	(325)	–	–	(325)
Share of profits of associates and joint ventures	4	–	–	4	–	–	–	4
Business area assets				24,683	61,131	9,593	14,527	109,934
Business area liabilities				(17,005)	(57,991)	(7,120)	(424)	(82,540)
2010								
Revenue from external customers	4,857	3,687	721	9,265	4,261	1,935	232	15,693
Inter-segment revenue	8	27	–	35	16	22	–	73
Total segment revenue	4,865	3,714	721	9,300	4,277	1,957	232	15,766
Segment profit (loss) before income tax	239	438	97	774	78	310	(41)	1,121
Segment income tax expense	(68)	(126)	(23)	(217)	(34)	(88)	18	(321)
Segment profit (loss) after income tax	171	312	74	557	44	222	(23)	800
Other segment disclosures								
Interest revenue	134	467	26	627	4,023	205	–	4,855
Interest expense	(43)	(43)	–	(86)	(3,095)	(6)	–	(3,187)
Depreciation and amortisation expense	(33)	(46)	(7)	(86)	(51)	(11)	(210)	(358)
Impairment losses on banking loans and advances	–	–	–	–	(479)	–	–	(479)
Share of profits of associates and joint ventures	29	–	–	29	–	–	–	29
Business area assets				21,662	75,771	9,545	397	107,375
Business area liabilities				(13,515)	(61,879)	(6,997)	(340)	(82,731)

5. Segment reporting (continued)

5.2 Reconciliation of reportable segment revenues, profit before income tax, assets and liabilities

	REVENUE		PROFIT BEFORE INCOME TAX	
	2011 $m	2010 $m	2011 $m	2010 $m
Consolidated				
Segment total	**19,112**	15,766	**692**	1,121
Elimination of intra-group investment revenue	**(50)**	(49)	**(50)**	(49)
Other consolidation eliminations	**(29)**	(35)	**60**	46
Consolidated total	**19,033**	15,682	**702**	1,118

	ASSETS		LIABILITIES	
	2011 $m	2010 $m	2011 $m	2010 $m
Consolidated				
Business area total	**109,934**	107,375	**(82,540)**	(82,731)
Elimination of investment in subsidiaries	**(13,253)**	(10,659)	**–**	–
Elimination of intra-group investments	**(244)**	(502)	**222**	481
Elimination of other intra-group balances	**(746)**	(702)	**629**	695
Other consolidation eliminations and reclassifications	**(203)**	(173)	**219**	169
Consolidated total	**95,488**	95,339	**(81,470)**	(81,386)

5.3 Geographical segments

While some business activities take place in New Zealand, the Suncorp Group operates predominantly in one geographical segment being Australia. Revenue from external customers and non-current assets in New Zealand are not material to the Suncorp Group.

5.4 Major customers

The Suncorp Group is not reliant on any external individual customer for 10% or more of the Suncorp Group's revenue.

5.5 Results by business area

A summary of revenue and expenses by business area and a summary of assets and liabilities by business area are presented in notes 5.5.1 and 5.5.2. These disclosures are an extension to the operating segment information presented above and are prepared on the same basis as described in note 5.1. Inclusion of results by business area in addition to the operating segment information presented above is beneficial in understanding the nature and financial effects of the business activities of the Suncorp Group, which consist of a General Insurance Group, a Banking Group, a Life Group and a Corporate Group.

5.5.1 Summary of revenue and expenses by business area

	Note	General Insurance 2011 $m	Banking 2011 $m	Life 2011 $m	Corporate 2011 $m
		BUSINESS AREAS			
Revenue					
Insurance premium income		7,083	–	791	–
Reinsurance and other recoveries income		4,581	–	205	–
Banking interest income		–	4,404	–	–
Investment revenue		740	10	636	19
Other income		225	196	221	1
Total revenue	5.1, 5.2	12,629	4,610	1,853	20
Expenses					
General Insurance claims expense		(9,331)	–	–	–
Life insurance claims and policyowner liabilities expense		–	–	(862)	–
Outwards reinsurance premium expense		(806)	–	(195)	–
Interest expense		(89)	(3,494)	(3)	–
Fees and commissions expense		(290)	(78)	(148)	–
Operating expenses		(1,550)	(568)	(391)	(150)
Impairment expense		–	(325)	–	–
Loss on sale of subsidiaries		–	–	–	(109)
Outside beneficial interests in managed funds		–	–	(31)	–
Total expenses		(12,066)	(4,465)	(1,630)	(259)
Profit (loss) before income tax	5.1, 5.2	563	145	223	(239)
Income tax expense	5.1	(171)	(61)	(74)	60
Profit (loss) for the financial year	5.1	392	84	149	(179)

	Note	2010 $m	2010 $m	2010 $m	2010 $m
Revenue					
Insurance premium income		6,889	–	756	–
Reinsurance and other recoveries income		1,329	–	177	–
Banking interest income		–	4,023	–	–
Investment revenue		826	20	775	–
Other income		256	234	249	232
Total revenue	5.1, 5.2	9,300	4,277	1,957	232
Expenses					
General Insurance claims expense		(5,966)	–	–	–
Life insurance claims and policyowner liabilities expense		–	–	(848)	–
Outwards reinsurance premium expense		(579)	–	(187)	–
Interest expense		(86)	(3,095)	(6)	–
Fees and commissions expense		(356)	(79)	(140)	–
Operating expenses		(1,540)	(546)	(422)	(273)
Impairment expense		–	(479)	–	–
Outside beneficial interests in managed funds		1	–	(44)	–
Total expenses		(8,526)	(4,199)	(1,647)	(273)
Profit (loss) before income tax	5.1, 5.2	774	78	310	(41)
Income tax expense	5.1	(217)	(34)	(88)	18
Profit (loss) for the financial year	5.1	557	44	222	(23)

5. Segment reporting (continued)

5.5 Results by business area (continued)

5.5.2 Summary of assets and liabilities by business area

		BUSINESS AREAS			
	Note	General Insurance 2011 $m	Banking 2011 $m	Life 2011 $m	Corporate 2011 $m
Assets					
Cash and cash equivalents		195	345	665	72
Receivables due from other banks		–	226	–	–
Trading securities	7.2	–	4,952	–	–
Derivatives	6.3, 7.3, 8.3	23	233	4	–
Investment securities	6.4, 7.2, 8.4, 15.1	10,782	5,742	7,520	13,824
Banking loans, advances and other receivables	7.4	–	48,694	–	–
General Insurance assets	6.5	8,054	–	–	–
Life assets	8.5	–	–	671	–
Due from Group entities		–	159	–	49
Property, plant and equipment		18	69	5	259
Deferred tax assets		–	182	–	105
Other assets		343	265	21	144
Goodwill and intangible assets		5,268	264	707	74
Total assets	5.1, 5.2	24,683	61,131	9,593	14,527
Liabilities					
Deposits and short-term borrowings	7.6	–	39,247	–	–
Derivatives	6.3, 7.3, 8.3	90	2,583	–	–
Payables due to other banks		–	31	–	–
Payables and other liabilities		1,141	669	173	280
Current tax liabilities		1	–	–	144
Due to Group entities		167	–	31	–
General Insurance liabilities	6.6	14,831	–	–	–
Life liabilities	8.6	–	–	6,183	–
Deferred tax liabilities		81	–	60	–
Managed funds units on issue		16	–	673	–
Securitisation liabilities	7.7	–	3,634	–	–
Debt issues	7.8	–	10,151	–	–
Subordinated notes	6.7, 7.9	678	846	–	–
Preference shares	7.10	–	830	–	–
Total liabilities	5.1, 5.2	17,005	57,991	7,120	424
Net assets		7,678	3,140	2,473	14,103

		BUSINESS AREAS			
	Note	General Insurance 2010 $m	Banking 2010 $m	Life 2010 $m	Corporate 2010 $m
Assets					
Cash and cash equivalents		156	329	575	42
Receivables due from other banks		–	232	–	–
Trading securities	7.2	–	8,233	–	–
Derivatives	6.3, 7.3, 8.3	36	786	13	–
Investment securities	6.4, 7.2, 8.4, 15.1	11,151	13,789	7,364	–
Banking loans, advances and other receivables	7.4	–	51,146	–	–
General Insurance assets	6.5	4,550	–	–	–
Life assets	8.5	–	–	651	–
Due from Group entities		–	413	–	–
Property, plant and equipment		39	106	8	205
Deferred tax assets		–	221	11	72
Other assets		343	266	6	18
Goodwill and intangible assets		5,387	250	917	60
Total assets	5.1, 5.2	21,662	75,771	9,545	397
Liabilities					
Deposits and short-term borrowings	7.6	–	34,244	–	–
Derivatives	6.3, 7.3, 8.3	49	2,409	3	–
Payables due to other banks		–	28	–	–
Payables and other liabilities		842	887	312	227
Current tax liabilities		7	–	–	–
Due to Group entities		237	–	49	113
General Insurance liabilities	6.6	11,556	–	–	–
Life liabilities	8.6	–	–	6,139	–
Deferred tax liabilities		119	–	72	–
Managed funds units on issue		15	–	422	–
Securitisation liabilities	7.7	–	4,906	–	–
Debt issues	7.8	–	17,044	–	–
Subordinated notes	6.7, 7.9	690	1,492	–	–
Preference shares	7.10	–	869	–	–
Total liabilities	5.1, 5.2	13,515	61,879	6,997	340
Net assets		8,147	13,892	2,548	57

6. General Insurance – Specific disclosures

6.1 Contribution to profit from General Insurance activities

	GENERAL INSURANCE	
	2011 $m	2010 $m
Net earned premium		
Direct premium income	7,083	6,889
Outwards reinsurance premium expense	(806)	(579)
	6,277	6,310
Net incurred claims		
Claims expense	(9,331)	(5,966)
Reinsurance and other recoveries revenue	4,581	1,329
	(4,750)	(4,637)
Underwriting expenses		
Acquisition costs	(923)	(1,009)
Liability adequacy test deficiency	(35)	–
Other underwriting expenses	(711)	(705)
	(1,669)	(1,714)
Reinsurance commission revenue	46	44
Underwriting result	(96)	3
Investment revenue – insurance funds		
Investment income on insurance funds	508	605
Investment expense on insurance funds	–	(3)
	508	602
Insurance trading result	412	605
Investment income on shareholder funds	232	221
Investment expense on shareholder funds	(26)	(24)
Fee for service and other income	175	183
Share of profits (losses) of associates and joint venture entities	4	29
Non-banking interest expense	(89)	(86)
Other expenses	(145)	(154)
	151	169
Contribution to profit before acquisition amortisation and tax from General Insurance activities	563	774

6.2 General Insurance – Net incurred claims

Details of net incurred claims for General Insurance are as follows:

	2011			2010		
	Current year $m	Prior year $m	Total $m	Current year $m	Prior year $m	Total $m
General Insurance						
Direct business						
Gross claims undiscounted	10,570	(1,063)	9,507	6,485	(441)	6,044
Discount	(518)	315	(203)	(327)	222	(105)
Gross claims discounted	10,052	(748)	9,304	6,158	(219)	5,939
Reinsurance and other recoveries undiscounted	(5,167)	381	(4,786)	(1,346)	(17)	(1,363)
Discount	254	(34)	220	49	(7)	42
Reinsurance and other recoveries	(4,913)	347	(4,566)	(1,297)	(24)	(1,321)
Total direct business	5,139	(401)	4,738	4,861	(243)	4,618
Net inwards reinsurance business			12			19
Total net claims incurred			4,750			4,637

The $401 million reduction (2010: $243 million) in prior year net provisions on the net incurred claims for 2011 is primarily due to decreases in prior year claims cost provisions with better than expected experience, coupled with increases in the discount rate applied to outstanding payments. The sensitivity of net profit to changes in claims assumptions, experience and risk margins is set out in note 6.6.2(e).

6.3 General Insurance – Derivatives

	GENERAL INSURANCE					
	2011			2010		
		Fair value			Fair value	
	Notional value $m	Asset $m	Liability $m	Notional value $m	Asset $m	Liability $m
Exchange rate-related contracts						
Cross currency swaps	291	–	(88)	291	–	(48)
Interest rate-related contracts						
Interest rate swaps	1,675	22	–	1,858	36	(1)
Interest rate swaptions	384	1	(1)	–	–	–
Interest rate futures	1,321	–	–	1,688	–	–
Interest rate options	47	–	(1)	96	–	–
	3,427	23	(2)	3,642	36	(1)
Total derivative exposures – current	3,718	23	(90)	3,933	36	(49)

6.4 General Insurance – Investment securities

	GENERAL INSURANCE	
	2011 $m	2010 $m
Financial assets designated at fair value through profit or loss		
Interest-bearing securities		
Debentures and corporate bonds	7,057	7,488
Government and semi-government securities	2,613	2,698
Discounted securities	61	108
	9,731	10,294
Unit trusts	1,051	857
Total investment securities – current	10,782	11,151

6. General Insurance – Specific disclosures (continued)

6.5 General Insurance assets

	CONSOLIDATED 2011 $m	2010 $m
Financial assets designated at fair value through profit or loss		
Premiums outstanding	**1,864**	1,762
Reinsurance and other recoveries		
Expected undiscounted outstanding reinsurance and other recoveries	**5,050**	1,715
Discount to present value	**(390)**	(164)
Reinsurance and other recoveries	**4,660**	1,551
Other receivables	**358**	201
Financial assets at amortised cost		
Outstanding proceeds from sale of investments in joint ventures	**–**	280
Other investment receivables	**34**	29
Deferred insurance assets		
Deferred acquisition costs	**452**	473
Deferred reinsurance assets	**562**	133
Other deferred assets	**124**	121
Total General Insurance assets	**8,054**	4,550
Current	**5,385**	3,730
Non-current	**2,669**	820
Total General Insurance assets	**8,054**	4,550

6.6 General Insurance liabilities

	Note	CONSOLIDATED 2011 $m	2010 $m
Unearned premium liabilities	6.6.1	**3,854**	3,670
Outstanding claims liabilities	6.6.2	**10,977**	7,886
Total General Insurance liabilities		**14,831**	11,556
Current		**8,062**	6,541
Non-current		**6,769**	5,015
Total General Insurance liabilities		**14,831**	11,556

6.6.1 Unearned premium liabilities
(a) Reconciliation of movement

	CONSOLIDATED 2011 $m	2010 $m
Balance at the beginning of the financial year	**3,670**	3,528
Premiums written during the year	**7,272**	7,029
Premiums earned during the year	**(7,083)**	(6,889)
Foreign currency exchange movement	**(5)**	2
Balance at the end of the financial year	**3,854**	3,670

(b) Liability adequacy test

The liability adequacy test (LAT) is used to assess the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against in-force insurance contracts. The LAT is carried out on each portfolio of contracts subject to broadly similar risks and are managed together as a single portfolio, being Australian Personal Insurance, Australian Commercial Insurance and New Zealand General Insurance. The following table details the value of the expected future cash flows arising from in-force contracts:

	CONSOLIDATED	
	2011 $m	2010 $m
Central estimate of present value of expected future cash flows arising from future claims	**2,934**	2,864
Risk margin	**68**	66
Discount to present value	**(154)**	(175)
Expected present value of future cash flows for future claims including risk margin	**2,848**	2,755
Risk margin	**2.8%**	2.5%
Probability of adequacy	**57–64%**	57–64%

The probability of adequacy adopted for the LAT differs from the 90% probability of adequacy adopted in determining the outstanding claims liabilities (refer note 6.6.2(d)). The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liabilities.

The process used to determine the risk margin is discussed in note 6.6.2(d).

As at 30 June 2011, the LAT resulted in a surplus for the Australia Personal Insurance and Australia Commercial Insurance portfolios and a $35 million deficit for the New Zealand General Insurance portfolio (2010: surplus for all portfolios). As a result, a $35 million (2010: nil) write-down of deferred acquisition cost was recognised. The deficit for the New Zealand General Insurance portfolio was determined as follows:

	2011 $m
New Zealand General Insurance Portfolio	
Central estimate of present value of expected future cash flow arising from future claims	**290**
Risk margin	**7**
	297
Unearned premium liability	**347**
Related deferred acquisition costs	**(70)**
Related reinsurance asset	**(15)**
	262
LAT deficiency	**35**

6. General Insurance – Specific disclosures (continued)

6.6 General Insurance liabilities (continued)

6.6.2 Outstanding claims liabilities

	CONSOLIDATED	
	2011 $m	2010 $m
Gross central estimate – undiscounted	11,014	7,818
Risk margin	1,247	1,260
Claims handling expenses	396	281
	12,657	9,359
Discount to present value	(1,680)	(1,473)
Gross outstanding claims liabilities – discounted	10,977	7,886
Overall risk margin applied	18.4%	18.3%
Probability of adequacy of the risk margin (approximately)	90%	90%

(a) Reconciliation of movement in discounted outstanding claims liabilities

	GENERAL INSURANCE	
	2011 $m	2010 $m
Net outstanding claims liabilities at the beginning of the financial year	6,335	6,059
Prior periods		
Claims payments	(1,678)	(1,614)
Discount unwind	194	149
Margin release on prior periods	(208)	(213)
Incurred claims due to changes in assumptions and experience	(383)	(286)
Change in discount rate	(3)	119
Change in risk margin percentage	–	(2)
Current period		
Incurred claims	5,145	4,878
Claims payments	(3,077)	(2,755)
Net foreign exchange difference	(8)	–
Net outstanding claims liabilities at the end of the financial year	6,317	6,335
Reinsurance and other recoveries on outstanding claims liabilities	4,660	1,551
Gross outstanding claims liabilities (discounted) at the end of the financial year	10,977	7,886

(b) Claims development table

The following table shows the development of the estimated undiscounted outstanding claims relative to the ultimate expected claims for the ten most recent accident years.

ACCIDENT YEAR	PRIOR $m	2002 $m	2003 $m	2004 $m	2005 $m	2006 $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m	TOTAL $m
Consolidated												
Estimate of ultimate claims cost:												
At end of accident year		795	1,020	1,044	1,172	1,208	1,246	1,289	1,294	1,332	1,324	
One year later		956	993	1,059	1,063	1,119	1,180	1,150	1,281	1,231		
Two years later		935	931	924	938	1,038	1,073	1,114	1,172			
Three years later		869	827	834	898	963	1,043	1,070				
Four years later		853	721	764	847	909	993					
Five years later		788	667	723	819	878						
Six years later		780	643	727	813							
Seven years later		772	649	697								
Eight years later		811	672									
Nine years later		797										
Current estimate of cumulative claims cost		797	672	697	813	878	993	1,070	1,172	1,231	1,324	
Cumulative payments		(738)	(609)	(616)	(673)	(684)	(662)	(537)	(414)	(211)	(65)	
Outstanding claims liabilities – undiscounted	731	59	63	81	140	194	331	533	758	1,020	1,259	5,169
Discount to present value	(293)	(8)	(11)	(14)	(25)	(30)	(47)	(69)	(100)	(148)	(207)	(952)
Deferred premium	–	–	–	–	–	–	–	–	–	–	2	2
Outstanding claims – long-tail	438	51	52	67	115	164	284	464	658	872	1,054	4,219
Outstanding claims – short-tail												869
Claims handling expense												249
Risk margin												980
Total net outstanding claims liabilities												6,317
Reinsurance and other recoveries on outstanding claims liabilities												4,660
Total gross outstanding claims liabilities												10,977

The claims development table discloses amounts net of reinsurance and third party recoveries to give the most meaningful insight into the impact on profit or loss. Short-tail claims are disclosed separately as they are generally subject to less uncertainty since they are normally reported soon after the incident and are generally settled within 12 months following the reported incident.

6. General Insurance – Specific disclosures (continued)

6.6 General Insurance liabilities (continued)

6.6.2 Outstanding claims liabilities (continued)

(c) Estimation of outstanding claims liabilities and assets arising from reinsurance contracts and other recoveries

The Suncorp Group's estimation of its claims liabilities includes the expected future cost of claims notified to the Suncorp Group as at balance date as well as claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER). Projected payments are discounted to present value and then an estimate of direct expenses expected to be incurred in settling these claims is determined. The impact of inflation on future expenditure is also taken into consideration. An additional risk margin is then applied to allow for the inherent uncertainty in the estimation process.

The Suncorp Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures with estimates and judgements continually being evaluated and updated based on historical experience and other factors. However, given the uncertainty in the estimation process, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims IBNR and claims IBNER are generally subject to a greater degree of uncertainty with claims often not being adequately reported until many years after the events giving rise to the claims have happened. For this reason, long-tail classes of business will typically display greater variations between initial estimates and final outcomes.

Estimation of assets arising from reinsurance and other recoveries are also computed using the above methods. The recoverability of these assets is assessed on a periodic basis, taking into consideration factors such as counterparty and credit risk.

(d) Actuarial assumptions and methods

The estimation of the outstanding claims liability is based on multiple actuarial techniques that analyse experience, trends and other relevant factors utilising the Suncorp Group's specific data, relevant industry data and general economic data. Methods undertaken to determine claims liability will vary according to the class of business. The Suncorp Group currently divides its General Insurance business into two classes: Personal and Commercial.

The use of multiple actuarial methods assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes. The most appropriate method or a blend of methods is selected, taking into account the characteristics of the class of business and the extent of the development of each past accident period.

Actuarial assumptions

The following key assumptions have been made in determining the outstanding claims liabilities:

	2011				2010			
	Personal		Commercial		Personal		Commercial	
	Aust	NZ	Aust	NZ	Aust	NZ	Aust	NZ
Weighted average term to settlement (years)	0.6	0.4	4.9	1.6	0.6	0.4	5.1	1.9
Economic inflation rate	4.1%	3.0%	4.5%	3.0%	4.1%	3.0%	4.5%	3.0%
Superimposed inflation rate	0.0%	0.0%	2.7%	1.9%	0.4%	0.0%	2.9%	1.9%
Discount rate	4.8%	2.9%	5.1%	3.8%	4.5%	3.6%	5.0%	4.7%
Claims handling expense ratio	9.2%	5.2%	4.3%	5.4%	7.2%	6.3%	4.2%	5.7%
Risk margin	12.8%	10.4%	19.2%	20.3%	11.0%	12.6%	19.3%	21.2%

Weighted average term to settlement – The weighted average term to settlement is calculated separately by class of business and is based on historic settlement patterns.

Economic and superimposed inflation – Claims inflation is incorporated into the resulting projected payments to allow for both expected levels of economic inflation and superimposed inflation. Economic inflation is based on economic indicators such as the consumer price index and/or increases in average weekly earnings. Superimposed inflation reflects the tendency for some costs, such as court awards, to increase at levels in excess of economic inflation. Inflation assumptions are set at a class of business level and reflect past experience and future expectations.

Discount rate – Projected payments are discounted at a risk-free rate to allow for the time value of money. Discount rates are derived from market yields on Commonwealth Government securities in Australia and the ten-year government stock rate in New Zealand at the balance date.

Claims handling expense ratio – The future claims handling ratio is calculated with reference to past experience of claims handling costs as a percentage of past payments.

Risk margin – A risk margin is added to allow for the uncertainty relating to the actuarial models and assumptions used, the quality of the underlying data used in the models, the general insurance environment and the impact of legislation reform.

The overall risk margin is determined after analysing the relative uncertainty of the outstanding claims estimate for each class of business and the diversification between classes and geographical locations.

The assumptions regarding uncertainty for each class are applied to the net central estimates, and the results are aggregated, allowing for diversification, in order to arrive at an overall position which is intended to have approximately a 90% probability of sufficiency (2010: 90% probability of sufficiency).

(e) Impact of changes in key variables

The Suncorp Group conducts sensitivity analyses to quantify the exposure to the risk of changes in the key underlying assumptions. A sensitivity analysis is conducted on each variable while holding all other variables constant. The tables below describe how a change in each assumption will affect the profit after tax and equity reserves.

	Movement in variable	Profit (loss) after tax 2011 $m	Equity reserves 2011 $m	Profit (loss) after tax 2010 $m	Equity reserves 2010 $m
Weighted average term to settlement (years)	+ 0.5	**(52)**	**–**	(65)	–
	– 0.5	**52**	**–**	65	–
Inflation rate	+ 1%	**(191)**	**–**	(198)	–
	– 1%	**181**	**–**	183	–
Discount rate	+ 1%	**178**	**–**	186	–
	– 1%	**(195)**	**–**	(205)	–
Claims handling expense ratio	+ 1%	**(47)**	**–**	(48)	–
	– 1%	**47**	**–**	48	–
Risk margin	+ 1%	**(50)**	**–**	(51)	–
	– 1%	**50**	**–**	51	–

6.7 General Insurance – Subordinated notes

			GENERAL INSURANCE	
	Due date	First call	2011 $m	2010 $m
Unsecured				
Financial liabilities at amortised cost				
Fixed rate notes	September 2024	September 2014	**130**	131
	September 2025	September 2015	**118**	118
	October 2026	October 2016	**99**	99
	June 2027	June 2017	**202**	213
Floating rate notes	September 2024	September 2014	**52**	52
	September 2025	September 2015	**77**	77
Total subordinated notes – non-current			**678**	690

The above subordinated notes are issued by Suncorp Metway Insurance Limited, Vero Insurance Limited and Suncorp Insurance Funding 2007 Limited. Payments of principal and interest on the notes have priority over the issuing entity's dividend payments only. In the event of the winding-up of the issuing entity, the rights of the note holders will rank in preference only to the rights of its ordinary shareholders.

6. General Insurance – Specific disclosures (continued)

6.8 General Insurance – Minimum capital requirement (MCR)

All general insurance entities that conduct insurance businesses in Australia are authorised by APRA and are subject to a minimum capital requirement (MCR). The MCR is the minimum level of capital that the regulator deems must be held to meet policyowner obligations. Licensed general insurance entities within the Suncorp Group use the standardised framework for calculating the MCR in accordance with the relevant prudential standards. In compliance with these standards, general insurers hold regulatory capital in excess of their MCR.

The regulatory capital position of the General Insurance business area at the end of the financial year was:

	GENERAL INSURANCE	
	2011 $m	2010 $m
Tier 1 capital		
Share capital	**2,509**	2,894
Reserves	**(2)**	10
Retained profits	**899**	900
Insurance liabilities in excess of liability valuation	**737**	606
Less: Tax effect of excess insurance liabilities	**(221)**	(182)
	3,922	4,228
Less:		
Goodwill and other intangible assets	**(1,182)**	(1,188)
Other Tier 1 deductions	**(51)**	(36)
Total deductions from Tier 1 capital	**(1,233)**	(1,224)
Total Tier 1 capital	**2,689**	3,004
Tier 2 capital		
Subordinated notes	**769**	778
Total Tier 2 capital	**769**	778
APRA capital base	**3,458**	3,782
Total minimum capital requirement (MCR)	**2,110**	1,996
MCR coverage ratio (times)	**1.64**	1.89

7. Banking – Specific disclosures

7.1 Contribution to profit from Banking activities

	BANKING	
	2011 $m	2010 $m
Net interest income		
Interest income	**4,404**	4,023
Interest expense	**(3,494)**	(3,095)
	910	928
Net banking fee and commission income		
Fee and commission income	**196**	234
Fee and commission expense	**(78)**	(79)
	118	155
Investment revenue		
Net profits on derivative and other financial instruments	**10**	17
Other income	**–**	3
	10	20
Non-interest income	**128**	175
Total income from Banking activities	**1,038**	1,103
Operating expenses	**(568)**	(546)
Impairment losses on loans and advances	**(325)**	(479)
Contribution to profit before tax from Banking activities	**145**	78

7.2 Banking – Trading and Investment securities

	CONSOLIDATED	
	2011 $m	2010 $m
Trading securities – current		
Financial assets at fair value through profit or loss		
Interest-bearing securities: Bank bills, certificates of deposit and other negotiable securities	**4,952**	8,233

	BANKING	
	2011 $m	2010 $m
Investment securities – current		
Available-for-sale financial assets		
Interest-bearing securities: Negotiable securities	**5,731**	3,117
Other	**11**	13
	5,742	3,130
Investment at cost		
Shares in subsidiaries	**–**	10,659
Total investment securities	**5,742**	13,789
Current	212	334
Non-current	5,530	13,455
Total investment securities	**5,742**	13,789

Consolidated net gains of $296 million (2010: $158 million) on financial assets held for trading and net losses of $21 million (2010: $21 million) on financial liabilities designated at fair value through profit or loss are recognised in profit or loss.

7. Banking – Specific disclosures (continued)

7.3 Banking – Derivatives

	BANKING					
	2011			2010		
	Notional value $m	Fair value Asset $m	Fair value Liability $m	Notional value $m	Fair value Asset $m	Fair value Liability $m
Exchange rate-related contracts						
Forward foreign exchange contracts	**5,117**	**19**	**(58)**	3,256	67	(31)
Cross currency swaps	**8,853**	**88**	**(2,306)**	15,255	287	(1,817)
Currency options	**27**	**–**	**–**	44	1	(1)
	13,997	**107**	**(2,364)**	18,555	355	(1,849)
Interest rate-related contracts						
Forward rate agreements	**1,000**	**–**	**–**	7,050	–	(1)
Interest rate swaps	**45,607**	**124**	**(218)**	48,729	425	(556)
Interest rate futures	**2,905**	**2**	**(1)**	2,868	2	–
Interest rate options	**240**	**–**	**–**	531	4	(3)
	49,752	**126**	**(219)**	59,178	431	(560)
Total derivative exposures – current	**63,749**	**233**	**(2,583)**	77,733	786	(2,409)

7.4 Banking loans, advances and other receivables

		CONSOLIDATED	
	Note	2011 $m	2010 $m
Banking			
Financial assets at amortised cost			
Housing loans [1]		**30,994**	29,107
Consumer loans		**558**	569
Business loans		**15,373**	20,042
Other lending [2]		**2,333**	2,100
		49,258	51,818
Provision for impairment	7.5.1	**(564)**	(672)
		48,694	51,146
Consolidated			
General Insurance and Life loans with Banking		**(55)**	–
Total loans, advances and other receivables		**48,639**	51,146
Current		**9,162**	10,823
Non-current		**39,477**	40,323
Total loans, advances and other receivables		**48,639**	51,146

Notes

1 Includes securitised housing loan balances of $3.9 billion (2010: $5.2 billion) which has an associated securitised liability of $3.9 billion (2010: $5.2 billion).

2 Balance contains $2.2 billion (2010: $2.1 billion) of collateral representing credit support to secure the Bank's liability position, as part of the standard ISDA agreement used by the Bank.

(a) Finance lease receivables

Included in business loans are the following finance lease receivables:

	CONSOLIDATED	
	2011 $m	2010 $m
Gross investment in finance lease receivables:		
Less than one year	403	564
Between one and five years	392	667
More than five years	3	4
	798	1,235
Unearned future income on finance leases	(83)	(137)
Net investment in finance lease receivables	715	1,098
Net investment in finance lease receivables:		
Less than one year	387	541
Between one and five years	327	555
More than five years	1	2
	715	1,098

7.5 Banking – Provision for impairment on Banking loans, advances and other receivables

7.5.1 Reconciliation of provision for impairment on Banking loans, advances and other receivables

	CONSOLIDATED	
	2011 $m	2010 $m
Collective provision		
Balance at the beginning of the financial year	201	282
(Credit) charge against impairment losses	(24)	(81)
Balance at the end of the financial year	177	201
Specific provision		
Balance at the beginning of the financial year	471	477
Charge against impairment losses	329	506
Impaired assets written off	(252)	(407)
Unwind of discount	(161)	(105)
Balance at the end of the financial year	387	471
Total provisions	564	672

7.5.2 Impairment expense on Banking loans, advances and other receivables

	CONSOLIDATED	
	2011 $m	2010 $m
Decrease in collective provision for impairment	(24)	(81)
Increase in specific provision for impairment	329	506
Bad debts written off	25	57
Bad debts recovered	(5)	(3)
Total impairment expense	325	479

7. Banking – Specific disclosures (continued)

7.6 Banking – Deposits and short-term borrowings

	CONSOLIDATED 2011 $m	2010 $m
Unsecured		
Banking		
Financial liabilities at amortised cost		
Call deposits	**9,520**	9,059
Term deposits	**18,393**	17,519
Short-term securities issued	**7,296**	6,455
Offshore borrowings	**198**	182
Financial liabilities designated at fair value through profit or loss		
Offshore borrowings	**3,840**	1,029
	39,247	34,244
Consolidated		
General Insurance, Life and Corporate call deposits with Banking at amortised cost	**(389)**	(286)
Total deposits and short-term borrowings – current	**38,858**	33,958

Deposits and short-term borrowings outstanding at 30 June 2011 of $301 million (2010: $280 million) have been obtained under repurchase agreements with the Reserve Bank of Australia.

7.7 Banking – Securitisation liabilities

	CONSOLIDATED 2011 $m	2010 $m
Secured		
Banking		
Notes measured at amortised cost	**3,634**	4,906
Consolidated		
General Insurance and Life investments in Banking's securitisation liabilities at amortised cost	**(102)**	(196)
Total securitisation liabilities	**3,532**	4,710
Current	**915**	1,261
Non-current	**2,617**	3,449
Total securitisation liabilities	**3,532**	4,710

7.8 Banking – Debt issues

	CONSOLIDATED 2011 $m	2010 $m
Unsecured		
Banking		
Borrowings at amortised cost		
Offshore borrowings	**5,333**	12,011
Domestic borrowings	**4,818**	5,033
	10,151	17,044
Consolidated		
General Insurance and Life investments in Banking's debt securities recognised as domestic borrowings at amortised cost	**(120)**	(285)
Total debt issues	**10,031**	16,759
Current	**2,522**	7,284
Non-current	**7,509**	9,475
Total debt issues	**10,031**	16,759

7.9 Banking – Subordinated notes

	Due date	First call	BANKING 2011 $m	2010 $m
Unsecured				
Financial liabilities at amortised cost				
Fixed rate notes (USD)	June 2013	Not applicable	**99**	124
Fixed rate notes	October 2017	October 2012	**400**	486
	June 2016	June 2011	**–**	203
Floating rate notes	October 2016	October 2011	**177**	188
	September 2015	September 2010	**–**	220
	June 2016	June 2011	**–**	100
Perpetual floating rate notes			**170**	171
Total subordinated notes			**846**	1,492
Current			**177**	220
Non-current			**669**	1,272
Total subordinated notes			**846**	1,492

Banking subordinated notes are issued by Suncorp-Metway Ltd (SML). Payments of principal and interest on the notes have priority over SML dividend payments only. In the event of the winding-up of SML, the rights of the note holders will rank in preference only to the rights of the preference and ordinary shareholders.

7. Banking – Specific disclosures (continued)

7.10 Banking – Preference shares

	CONSOLIDATED			
	2011 No. of shares	2010 No. of shares	2011 $m	2010 $m
Reset preference shares each fully paid	**1,022,582**	1,440,628	**102**	144
Convertible preference shares each fully paid	**7,350,000**	7,350,000	**728**	725
Total preference shares	**8,372,582**	8,790,628	**830**	869
Current			**102**	–
Non-current			**728**	869
Total preference shares			**830**	869

Preference shares are issued by SML. Holders of preference shares are entitled to vote in limited circumstances in which case shareholders will have the same rights as to the manner of attendance and to voting as SML ordinary shareholders with one vote per preference share. The limited circumstances are set out in the Information Memorandum/ Prospectus.

In the event of the winding-up of SML, preference shareholders rank above SML ordinary shareholders but after depositors, creditors and subordinated note holders and are entitled to the proceeds of liquidation only to the extent of the issue price of the shares.

(a) Reset preference shares

The reset preference shares (RPS) are perpetual, paying fixed non-cumulative dividends with certain terms periodically reset. Holders have an option on each reset date to request the preference shares be exchanged. Once a holder's exchange request is received, SML has the option to elect to exchange for cash or SML ordinary shares of approximately equal value to the original issue price of the preference shares, or to have the preference shares acquired by a third party with proceeds delivered to the holder. It is SML's current intention to exchange the relevant RPS for cash consideration rather than exchanging the RPS for SML ordinary shares (subject to APRA approval).

Holders of the RPS are entitled to receive a dividend as calculated by the formula set out in the Information Memorandum dated 16 August 2001. Such dividends are at the discretion of the directors and only payable if the restrictions as set out in the Information Memorandum are complied with. The dividends are expected to be fully franked.

The Suncorp Group's restructure was a Control Event as defined in the RPS terms. It triggered an option for holders to request exchange. Exchange requests for 418,046 RPS were received. Exchange consideration of $42 million was settled in cash on 23 March 2011 and the exchanged RPS were cancelled on this date. The next reset date is 14 September 2011.

(b) Convertible preference shares

The convertible preference shares (CPS) are fully paid preference shares issued by SML which will mandatorily convert into a variable number of the Company's ordinary shares on 14 June 2013 (subject to certain requirements being met). In addition, SML must convert the CPS into a variable number of Company's ordinary shares or redeem the CPS for cash within 35 days of the occurrence of an Acquisition Event (subject to certain conditions being met). The CPS Prospectus dated 14 May 2008 was amended for SML being substituted by the Company as the issuer of ordinary shares upon conversion of the CPS as a result of the execution of the CPS Deed Poll from the Suncorp Group Restructure.

Holders of the CPS are entitled to receive floating rate quarterly non-cumulative preferred dividends calculated by the formula set out in the Prospectus and which are subject to payment tests also documented in the Prospectus. Such dividends are at the discretion of the directors and only payable if the restrictions, as set out in the Prospectus, are complied with. The dividends are expected to be fully franked.

(c) Preference share dividends paid

	CONSOLIDATED					
	2011			2010		
	¢ per share	$m	Date paid	¢ per share	$m	Date paid
Preference share dividend payments recognised as interest expense						
Reset preference shares						
Period from March to September	**255**	**4**	**14 September 2010**	255	3	14 September 2009
Period from September to March	**251**	**4**	**14 March 2011**	251	4	15 March 2010
		8			7	
Convertible preference shares						
September quarter	**142**	**10**	**14 September 2010**	113	8	14 September 2009
December quarter	**140**	**10**	**14 December 2010**	116	9	14 December 2009
March quarter	**143**	**11**	**14 March 2011**	130	10	15 March 2010
June quarter	**144**	**11**	**14 June 2011**	135	10	15 June 2010
		42			37	

7.11 Banking – Capital adequacy

APRA's risk-based approach requires eligible capital held by banks to be divided by total risk-weighted exposures, with the resultant ratio being used as a measure of a bank's capital adequacy.

Tier 1 capital comprises the highest quality components of capital and can be split into Fundamental Tier 1 capital and Residual Tier 1 capital. Fundamental Tier 1 capital is the strongest form of capital such as ordinary share capital, reserves and retained profits. Residual Tier 1 capital comprises instruments such as perpetual non-cumulative preference shares and other capital instruments that can include features such as fixed terms, and step-ups in dividends or interest.

Tier 2 capital includes other components that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of a bank as a going concern. Upper Tier 2 capital comprises components of capital that are permanent in nature and include some forms of hybrid instruments. Lower Tier 2 capital comprises hybrid instruments that are not permanent.

For capital adequacy purposes, the capital base is defined as the sum of Tier 1 and Tier 2 capital after all specified deductions and adjustments. Eligible Tier 2 capital cannot exceed the level of Tier 1 capital. Lower Tier 2 capital after all specified deductions and adjustments cannot exceed 50% of net Tier 1 capital.

The measurement of risk-weighted exposures is based on:

- credit risk associated with on-balance sheet and off-balance sheet exposures, and securitisation exposures
- market risk arising from trading activities; and
- operational risk associated with the banking activities.

7. Banking – Specific disclosures (continued)

7.11 Banking – Capital adequacy (continued)

For calculation of minimum prudential capital requirements, the Banking business area has adopted the Standardised Approaches. The consolidated Banking capital adequacy position is set out below:

	BANKING	
	2011 $m	2010 $m
Tier 1		
Fundamental Tier 1		
Ordinary share capital	1,789	12,783
Retained profits	902	847
	2,691	13,630
Residual Tier 1		
Reset preference shares	102	144
Convertible preference shares	736	735
Preference shares not eligible for inclusion in Tier 1	(15)	–
	823	879
Tier 1 deductions		
Goodwill and other intangibles arising on acquisition	(29)	(7,809)
Tier 1 deductions for investments in subsidiaries, capital support	(18)	(1,428)
Other Tier 1 deductions	(176)	(347)
	(223)	(9,584)
Total Tier 1 capital	3,291	4,925
Tier 2		
Upper Tier 2		
APRA general reserve for credit losses	248	346
Perpetual subordinated notes	170	170
Asset revaluation reserves	17	7
Preference shares not eligible for inclusion in Tier 1	15	–
	450	523
Lower Tier 2		
Subordinated notes	883	1,458
	883	1,458
Tier 2 deductions for investments in subsidiaries, capital support	(18)	(1,428)
Total Tier 2 capital	1,315	553
Capital base	4,606	5,478
Total assessed risk	34,365	37,234
	%	%
Risk-weighted capital ratios		
Tier 1	9.6	13.2
Tier 2	3.8	1.5
Total risk-weighted capital ratio	13.4	14.7

8. Life – Specific disclosures

8.1 Contribution to profit from Life activities

	LIFE	
	2011 $m	2010 $m
Income		
Premiums received or receivable	1,292	3,028
Premiums recognised as a change in gross policy liabilities	(501)	(2,272)
Premium income	791	756
Outwards reinsurance premium expense	(195)	(187)
	596	569
Investment income	636	775
Fees from trust and fiduciary activities	104	95
Other income	117	154
	1,453	1,593
Operating expenses		
Claims paid or payable	(1,316)	(3,048)
Claims recognised as a change in gross policy liabilities	782	2,571
Claims expense	(534)	(477)
Reinsurance recoveries revenue	205	177
	(329)	(300)
Policy acquisition expenses		
commission	(81)	(80)
other	(90)	(75)
Policy maintenance expenses		
commission	(67)	(60)
other	(116)	(132)
Investment management expenses	(19)	(26)
Other operating expenses	(166)	(189)
(Increase) decrease in net insurance contract liabilities	(79)	3
(Increase) in net investment contract liabilities	(270)	(368)
Decrease (increase) in unvested policyowner benefits	21	(6)
Outside beneficial interests in managed funds	(31)	(44)
Non-banking interest expense	(3)	(6)
	(1,230)	(1,283)
Contribution to profit before acquisition amortisation and tax from Life activities	223	310

8. Life – Specific disclosures (continued)

8.2 Sources of Life business operating profit

	LIFE			
	Life insurance contracts $m	Investment linked contracts $m	Other Life investment contracts $m	Total statutory funds $m
2011				
Shareholders' operating profit in the statutory funds				
The shareholders' operating profit after tax in the statutory funds is represented by:				
Investment earnings on shareholders' retained profits and capital	66	4	1	71
Emergence of shareholders' planned profits	94	–	–	94
Experience (loss)	(39)	–	–	(39)
Reversal of capitalised loss	2	–	–	2
Management services profit	–	8	–	8
	123	12	1	136
Cumulative losses carried forward at the end of the financial year	24	–	–	24
Life Act policyowners' operating profit in the statutory funds				
The Life Act policyowners' operating profit after tax in the statutory funds is represented by:				
Investment earnings on retained profits	26	–	–	26
Emergence of policyowner planned profits	63	–	–	63
Experience profit	4	–	–	4
	93	–	–	93
2010				
Shareholders' operating profit in the statutory funds				
The shareholders' operating profit after tax in the statutory funds is represented by:				
Investment earnings on shareholders' retained profits and capital	87	5	1	93
Emergence of shareholders' planned profits	92	–	–	92
Experience profit	13	–	–	13
Reversal of capitalised loss	1	–	–	1
Management services profit	–	18	1	19
	193	23	2	218
Cumulative losses carried forward at the end of the financial year	28	–	–	28
Life Act policyowners' operating profit in the statutory funds				
The Life Act policyowners' operating profit after tax in the statutory funds is represented by:				
Investment earnings on retained profits	23	–	–	23
Emergence of policyowner planned profits	60	–	–	60
Experience profit	5	–	–	5
	88	–	–	88

A policyowner is one who holds a policy with the Life companies (refer definition in note 8.7.1). The shareholder represents the Life companies' interest in the statutory funds. A statutory fund is a fund of a life company that relates solely to the life insurance business of that life company as defined by the *Life Insurance Act 1995* (Life Act).

8.3 Life – Derivatives

	LIFE					
	2011			2010		
		Fair value			Fair value	
	Notional value $m	Asset $m	Liability $m	Notional value $m	Asset $m	Liability $m
Exchange rate-related contracts						
Forward foreign exchange contracts	**260**	**3**	**–**	277	8	–
Interest rate-related contracts						
Interest rate swaps	**292**	**1**	**–**	278	5	–
Interest rate futures	**(123)**	**–**	**–**	(128)	–	–
Interest rate options	**(19)**	**–**	**–**	2	–	–
	150	**1**	**–**	152	5	–
Equity contracts						
Equity futures	**26**	**–**	**–**	43	–	(3)
Total derivative exposures – current	**436**	**4**	**–**	472	13	(3)

8.4 Life – Investment securities

	LIFE	
	2011 $m	2010 $m
Financial assets at fair value through profit or loss		
Interest-bearing securities		
Debentures and corporate bonds	**1,783**	2,142
Government and semi-government securities	**706**	635
Discounted securities	**59**	63
	2,548	2,840
Equity securities	**1,339**	1,358
Property trusts	**292**	282
Unit trusts	**3,268**	2,820
Other	**73**	64
Total investment securities – current	**7,520**	7,364

8.5 Life assets

	CONSOLIDATED	
	2011 $m	2010 $m
Financial assets designated at fair value through profit or loss		
Gross policy liabilities ceded under reinsurance	**339**	327
Other receivables	**103**	143
Financial assets at amortised cost		
Other receivables	**211**	163
Deferred insurance assets		
Life deferred insurance assets	**18**	18
Total Life assets	**671**	651
Current	**345**	322
Non-current	**326**	329
Total Life assets	**671**	651

8. Life – Specific disclosures (continued)

8.6 Life liabilities

	Note	CONSOLIDATED 2011 $m	2010 $m
Gross policy liabilities			
Investment contract policy liabilities		**3,663**	3,672
Insurance contract policy liabilities	8.7.3	**1,958**	1,911
	8.6.1	**5,621**	5,583
Unvested policyowner benefits	8.6.2	**383**	404
Outstanding claims liabilities		**167**	142
Unearned premium liabilities		**12**	10
Total Life liabilities		**6,183**	6,139
Current		**521**	493
Non-current		**5,662**	5,646
Total Life liabilities		**6,183**	6,139

8.6.1 Gross Life policy liabilities

	INVESTMENT CONTRACTS 2011 $m	2010 $m	INSURANCE CONTRACTS 2011 $m	2010 $m	TOTAL POLICY LIABILITIES 2011 $m	2010 $m
Consolidated						
Policy liabilities						
Policy liabilities at beginning of financial year	**3,672**	3,423	**1,911**	2,124	**5,583**	5,547
Movement in policy liabilities reflected in profit or loss	**270**	368	**92**	15	**362**	383
Contributions recognised in policy liabilities	**358**	1,699	**143**	573	**501**	2,272
Withdrawals recognised in policy liabilities	**(596)**	(1,770)	**–**	–	**(596)**	(1,770)
Fee expense recognised as a change in policy liabilities	**(31)**	(48)	**–**	–	**(31)**	(48)
Claims expense recognised in policy liabilities	**–**	–	**(186)**	(801)	**(186)**	(801)
Foreign currency exchange movement	**(10)**	–	**(2)**	–	**(12)**	–
Policy liabilities at end of financial year	**3,663**	3,672	**1,958**	1,911	**5,621**	5,583
Liabilities ceded under reinsurance						
Liabilities ceded under reinsurance at beginning of financial year					**327**	311
Movement in reinsurance assets reflected in profit or loss					**13**	18
Foreign currency exchange movement					**(1)**	(2)
Liabilities ceded under reinsurance at end of financial year					**339**	327

Liabilities ceded under insurance contracts are included in insurance contract policy liabilities with the corresponding asset disclosed in note 8.5.

8.6.2 Unvested policyowner benefits

	CONSOLIDATED 2011 $m	2010 $m
Unvested policyowner benefits at beginning of financial year	**404**	397
(Decrease) increase in unvested policyowner benefits	**(21)**	6
Foreign currency exchange movement	**–**	1
Unvested policyowner benefits at end of financial year	**383**	404

8.7 Life – Net policy liabilities

8.7.1 Life liability estimation process

The Suncorp Group conducts its Life business in Australia through Suncorp Life & Superannuation Limited (SLSL) and Asteron Life Limited (Australia) (ALL) and in New Zealand through Asteron Life Limited (New Zealand) (ALLNZ), collectively referred to as the Life companies.

Policy liabilities in Australia have been calculated in accordance with APRA Prudential Standard LPS 1.04 *Valuation of Policy Liabilities* issued under Section 230A(1) of the *Life Act*. Policy liabilities in New Zealand have been calculated in accordance with Professional Standard Number 3, *Determination of Life Insurance Policy Liabilities* issued by the New Zealand Society of Actuaries.

For life insurance contracts, policy liabilities are calculated in a way which allows for the proper and timely release of profits over the life of the business as services are provided to policyowners and premiums are received. The release of profits is based on a profit carrier. For life investment contracts, policy liabilities are calculated as the fair value of liabilities in accordance with accounting standards.

Life insurance contract liabilities are determined using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles and standards. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

Actuarial reports with an effective date of 30 June 2011 were prepared in relation to policy liabilities and solvency reserves. All reports indicated that the Appointed/Company Actuaries are satisfied as to the accuracy of the data upon which policy liabilities have been determined. The actuarial reports for SLSL and ALL were prepared by Mr Michael Lubke, Appointed Actuary BSc (Hons) FIAA and the actuarial report for ALLNZ was prepared by Mr Daniel Wong, Company Actuary MMgt FIAA FNZSA.

The methods and profit carriers for the major policy types of life insurance contracts are as follows:

BUSINESS TYPE	METHOD	LIFE COMPANY			PROFIT CARRIER
		SLSL	ALL	ALL NZ	
Individual					
Conventional	Projection	✓	✓	✓	Participating business – bonuses Non-participating business – expected claim payments
Investment account	Projection	✓	✓	n/a	Interest credits
Accidental cash back	Projection	n/a	✓	n/a	Expected payments
Allocated pension	Projection	✓	✓	n/a	Interest credits
Lump sum risk	Projection	✓	✓	✓	Expected claim payments
Disability income risk	Projection	✓	✓	✓	Expected claim payments
Annuity	Projection	✓	✓	✓	Annuity payments
Group					
Investment account	Projection	✓	✓	✓	Interest credits
Disability income risk	Accumulation	✓	n/a	n/a	Not applicable
Disability income risk	Projection	n/a	✓	✓	Expected claim payments
Lump sum risk	Accumulation	✓	n/a	n/a	Not applicable
Lump sum risk	Projection	n/a	✓	✓	Expected claim payments

8. Life – Specific disclosures (continued)

8.7 Life – Net policy liabilities (continued)

8.7.2 Actuarial assumptions, judgements and estimates used in calculating policy liabilities

The following table sets out key factors affecting the determination of the policy liabilities and the critical assumptions and judgements made.

Each of the Life companies has a different mix of business, which has arisen over many years under different products, different underwriting standards and sold to different segments of the market. Experience for each of the Life companies, in relation to factors such as mortality, morbidity and lapse rates is examined in detail on at least an annual basis, with assumptions set having regard to the observed experience, the volume of internal data upon which to make inferences and other relevant factors for the Life company in question. This may lead to different assumptions for each Life company.

ASSUMPTION	BASIS OF ASSUMPTION	SIGNIFICANT CHANGES SINCE 2010
Investment earnings – participating business	Assumed earning rates are determined having regard to the asset mix of the investment portfolio backing the benefits, the assumed earning rates for each sector, market conditions at the valuation date and tax on investment earnings appropriate to the class of business and asset sector. See rates for each Life company in the following table.	None
Investment earnings – non-participating business	All non-participating businesses use an investment earnings and discount rate assumption of the risk-free rate. For SLSL and ALL this has been determined from the government bond curve and for ALLNZ it is derived from the swap rate curve. See rates for each Life company in the following table.	None
Maintenance expenses	Per policy expense rates are based upon expected costs to service existing contracts in the period following the reporting date. Expense rates vary by product line and class of business.	None
Inflation	The inflation rate assumed takes into account the difference between the long-term government bonds and indexed government bonds for Australia. Australia 3.0% (2010: 3.0%), New Zealand 2.5% (2010: 2.5%)	None
Benefit indexation	Where the increase in future benefits increases in line with inflation, the Life company has used an assumption of 2.5% (2010: 2.5%).	None
Voluntary discontinuance	Rates are based upon recent internal investigations. Rates may vary by product, class of business, policy value, age and duration in force. Allowance is also made for cash withdrawals. See rates for each Life company in the following table.	Assumed rates for ALL intermediated business have been increased.
Surrender values	Surrender values are determined by applying the surrender bases current at the reporting date.	None
Rates of taxation	The rates of taxation assumed are based on current income tax legislation applicable to the type of product.	None
Mortality – individual risk products	Mortality rates for risk products have been determined using the standard mortality table (IA95-97) which was developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997. See adjustment rates for each Life company in the following table.	Assumed rate of mortality for ALL intermediated lump sum business has been strengthened (although the adjusted base table is lower, underlying factors such as selection rates and smoker loadings have been increased, leading to an overall increase or strengthening); for ALLNZ intermediated lump sum business has been reduced, having regard to observed experience.

8.7.2 Actuarial assumptions, judgements and estimates used in calculating policy liabilities (continued)

ASSUMPTION	BASIS OF ASSUMPTION	SIGNIFICANT CHANGES SINCE 2010
Mortality – annuitants	Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments for assumed future age-related improvements. Tables IM/IF80 were developed by the Institute of Actuaries and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982. See following table for applicable adjustment rates. SLSL and ALL: Adjustments applied to the base factors (60%) from a base year of 1996. ALLNZ: Base tables as above. Adjustments applied to the base factors (67%) from a base year of 1996, allowing for assumed future age-related improvements.	Based on an analysis of Australian population mortality and other industry data, the bases between ALL and SLSL have been aligned, with a strengthening of the SLSL basis (both base factors and future rate of mortality improvement) and a weakening of the ALL basis (both base factors and future rate of mortality improvement).
Morbidity – lump sum	Morbidity rates on lump sum Total and Permanent Disablement (TPD) policies have been based on industry and population experience with adjustments to reflect experience. For trauma policies, assumed incidence rates are based on Australian/New Zealand population statistics with adjustments to reflect experience and policy conditions.	For ALL, the basis has been strengthened overall, with reductions assumed for some trauma conditions, offset by increases in other conditions and TPD incidence. For ALLNZ, the basis has been reduced overall, with reductions assumed for some trauma conditions and TPD incidence, partially offset by an increase in the incidence assumption for some legacy trauma products.
Disability – income	Morbidity rates on income policies have been determined using the IAD89-93 table with adjustments to reflect experience, including New Zealand specific factors for ALLNZ. IAD89-93 was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993.	For ALL, based on experience over recent years, the incidence basis has been strengthened, as has the recovery rate basis, with reductions made to assumed recovery rates, primarily at longer durations.
Group lump sum (Asteron)	In ALL, claim rates are set as a proportion of premiums net of commission and stamp duty. In ALLNZ, claim rates are set as a proportion of premiums net of commission and GST where applicable.	Slight increase in assumed claims cost for ALL
Group disability income (Asteron)	In Australia, claim rates are set as a proportion of premiums net of commission and stamp duty. Claim termination rates are determined using CIDA85 with adjustments to reflect ALL's experience. In New Zealand, claim rates are set as a proportion of premiums net of commission and GST where applicable. Claim termination rates are determined using IAD89-93 with adjustments to reflect ALLNZ's experience.	None
Future supportable bonuses and interest credits to participating policies	Future bonus rates and interest credits assumed are those supported by the policy liabilities and the assumed future experience, including allowance for the shareholder's right to participate in distributions. Using these rates the net present value of expected future cash flows equals the value of assets supporting the business. For participating whole of life and endowment business, the Suncorp Group's policy is to set bonus rates such that, over long periods, the returns to policyowners (as a group, but not necessarily individually) are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. For participating investment account business, crediting rates are set such that over long periods policyowners (as a group, but not necessarily individually) receive full investment earnings on their accounts less a deduction of explicit fees and charges. Distributions are split between policyowners and shareholders with the valuation allowing for the shareholders to share in distributions at the maximum allowable rate of 20%.	None

8. Life – Specific disclosures (continued)

8.7 Life – Net policy liabilities (continued)

8.7.2 Actuarial assumptions, judgements and estimates used in calculating policy liabilities (continued)

ASSUMPTION	SLSL 2011 %	SLSL 2010 %	ALL 2011 %	ALL 2010 %	ALLNZ 2011 %	ALLNZ 2010 %
Investment earnings pre-tax for participating business	**6.5–7.6**	6.2–7.4	**7.3**	7.1	**6.7**	6.8
Investment earnings pre-tax for non-participating business	**4.7–6.1**	4.2–5.6	**4.7–5.7**	4.5–5.6	**2.9–6.4**	3.8–6.4
Voluntary discontinuance	**4–25**	4–25	**3–32**	3–26	**4–20**	6–23
Mortality – individual risk products adjustment	**70–170**	70–170	**59**	62	**85**	95
Mortality – annuitants (M = Male, F = Female)	**60%**	M = 60% F = 70%	**60%**	M = 55% F = 55%	**67%**	M = 68% F = 68%

8.7.3 Net insurance contract policy liabilities

	CONSOLIDATED Current basis 2011[4] $m	2011[5] $m	Previous basis 2010[6] $m
Insurance contract policy liabilities			
Best estimate liability			
Value of future policy benefits[1]	**4,354**	**4,448**	4,510
Value of future expenses	**2,084**	**2,151**	2,027
Value of unrecouped acquisition expenses	**(177)**	**(177)**	(182)
Balance of future premiums	**(6,395)**	**(6,661)**	(6,498)
	(134)	**(239)**	(143)
Value of future profits			
Policyowner bonuses[2]	**558**	**548**	493
Shareholder profit margins	**1,085**	**1,202**	1,159
	1,643	**1,750**	1,652
Total value of declared bonuses[3]	**110**	**110**	75
Total net policy liabilities	**1,619**	**1,621**	1,584
Life insurance reinsurance ceded	**339**	**341**	327
Gross insurance contract liabilities	**1,958**	**1,962**	1,911
Policy liabilities subject to capital guarantee	**1,345**	**1,356**	1,345

Notes

1 Future policy benefits include bonuses credited to policyowners in prior periods but exclude current period bonuses (as set out in the consolidated statement of comprehensive income) and future bonuses. Where business is valued by other than projection techniques, future policy benefits include the account balance.
2 Future bonuses exclude current period bonuses.
3 Current year declared bonuses valued in accordance with the Actuarial Standard.
4 Based on actuarial methods and assumptions relevant at the current reporting date, on current in-force business as at 30 June 2011.
5 Based on actuarial methods and assumptions relevant at the previous reporting date, on current in-force business as at 30 June 2011.
6 Based on actuarial methods and assumptions relevant at the previous reporting date, on current in-force business as at 30 June 2010.

8.7.4 Sensitivity analysis

The Suncorp Group conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables that affect profits. The valuations included in the reported results and the Life companies' best estimate of future performance, are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Life companies and as such represents a risk.

VARIABLE	IMPACT OF MOVEMENT IN UNDERLYING VARIABLE
Maintenance expense	An increase in the level or inflationary growth of expenses over assumed levels would decrease profit and shareholder equity.
Mortality, TPD and Trauma rates	For lump sum risk business other than lifetime annuities, greater mortality, TPD or trauma rates would lead to higher levels of claims occurring, increasing associated claims cost and therefore reducing profit and shareholder equity. For lifetime annuities greater mortality rates would lead to a shorter duration of regular payments, and therefore increasing profit and shareholder equity.
Morbidity rates (disability income)	The cost of health-related claims depends on both the incidence of policyowners becoming disabled and the duration for which they remain disabled. Higher than expected incidence and longer durations would increase claim costs, reducing profit and shareholders' equity.
Discontinuance	An increase in discontinuance rates at earlier durations has a negative effect, reducing profit and shareholders' equity, as it affects the ability to recover acquisition expenses and commissions.

For life insurance contracts which are accounted for under LPS 1.04, amounts recognised in the current period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins, except in cases where the product is in loss recognition or goes into loss recognition.

The following table illustrates the impact in the current period of changes in key assumptions as at 30 June 2011. The change in liability and profit (loss) are shown net and gross of reinsurance.

Variable	Change[1]	Change in insurance contract liability (net) $m	Change in insurance contract liability (gross) $m	Profit (loss) after tax (net) $m	Profit (loss) after tax (gross) $m
Maintenance expense	+ 10% increase	12	12	(12)	(12)
Mortality and lump sum morbidity	+ 10% increase	(3)	(2)	3	2
Morbidity – disability income	+ 10% increase in incidence and decrease in recovery rates	92	192	(92)	(192)
Discontinuance rates	+ 10% increase	13	18	(13)	(18)

Note

1 Change is an absolute rather than relative change.

The following table illustrates the effects of changes in actuarial assumptions from 30 June 2010 to 30 June 2011. Part of the effect of the change in variables below may have been absorbed into profit margins.

Assumption category	Effect on future profit increase (decrease) $m	Effect on policy liabilities increase (decrease) $m
Discount rates (risk business)[1]	–	(2)
Discount rates (participating business)	3	–
Mortality and morbidity	9	(5)
Morbidity income	(11)	3
Lapse and surrender rates	(86)	–
Indexation take-up rate	–	–
Maintenance expenses	(23)	–
Other	(7)	–

Note

1 Effects for risk business is shown gross of tax.

8. Life – Specific disclosures (continued)

8.8 Life – Capital and solvency requirements

Life insurance businesses are required to hold prudential reserves, over and above their life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. This involves the monitoring of two aspects of each life statutory fund – solvency and capital adequacy.

The purpose of the solvency requirement is to ensure, as far as practicable, that at any time the Suncorp Group will be able to meet all existing liabilities as they become due. The capital adequacy requirement is a separate requirement (usually higher) that must be satisfied for the life company to be allowed to make distributions to its shareholders and to operate without regulatory intervention.

Capital adequacy requirements for Australian life insurers are specified in the *Life Act* and LPS 3.04 *Capital Adequacy Standard* with the Suncorp Group's Life companies holding a target surplus of capital in excess of this prescribed minimum. In the absence of New Zealand regulatory requirements relating to capital adequacy, the Suncorp Group determines the minimum capital requirements for its New Zealand life company according to the business and operational needs.

The methodology and bases for determining Australian solvency requirements is in accordance with LPS 2.04 *Solvency Standard*, as required under the *Life Act*. For New Zealand, this amount has been calculated as at 30 June 2011 in accordance with Professional Standard 5.01 (PS5.01) issued by the New Zealand Society of Actuaries.

The Appointed Actuaries have confirmed that the available assets of each life statutory fund have exceeded the capital adequacy and the solvency reserve required at all times during the year. For detailed solvency information on a statutory fund basis, users of this financial report should refer to the financial statements prepared by the Life companies.

	LIFE	
	2011 $m	2010 $m
Solvency requirement	**7,445**	7,332
Assets available for solvency reserve	**631**	940
Solvency reserve	**6.3%**	6.1%
Coverage of solvency reserve (times)	**1.5**	2.3

Sensitivity tests are performed on a quarterly basis to ascertain the ability of the statutory funds to withstand various adverse asset shock scenarios.

8.9 Life – Managed assets, trustee activities and mortgage investments

Arrangements are in place to ensure activities relating to asset management, trusteeship and mortgage investments are managed separately from the Life operations of the Suncorp Group.

8.9.1 Managed assets and trustee activities

Companies within the Suncorp Group are used to manage assets of subsidiaries, superannuation schemes and unit trusts of the Suncorp Group as well as external clients. Companies within the Suncorp Group also undertake trustee activities. The assets under management (AUM) of fund managers, funds under administration (FUA), and securities supervised (SS) by trustee companies are listed in the table below:

Trustee/fund manager	FUA/AUM/SS	2011 $m	2010 $m
Asteron Retirement Investment Limited & Asteron Trust Services Limited [1]	FUA	**299**	344
SIS Super Pty Ltd – trustee for the Suncorp Staff Superannuation Fund [2]	FUA	–	703
Suncorp Portfolio Services Limited [3]	FUA	**5,996**	4,716
Suncorp Metway Investment Management Limited [4]	AUM	–	389
Tyndall Investment Management Limited [4]	AUM	–	5,168
Tyndall Investment Management New Zealand Limited [4]	FUA	–	2,860
Tyndall Investment Management New Zealand Limited [4]	AUM	–	1,042
New Zealand Guardian Trust Company Limited (NZGT) [5]	AUM	–	2,831
New Zealand Guardian Trust Company Limited (NZGT) [5]	SS	–	43,014

Notes

1 Trustee and manager for a number of wholesale, superannuation and investment funds. The assets and liabilities of these trusts and funds are not consolidated in the financial statements as the Suncorp Group does not control these entities.

2 Trustee for Suncorp Staff Superannuation Fund. All assets and liabilities of Suncorp Staff Superannuation Fund have been transferred to the successor fund Suncorp Master Trust on 30 June 2011.

3 Trustee for various internal superannuation funds.

4 The Suncorp Group's interest in these entities was disposed of as at 1 March 2011.

5 The Suncorp Group's interest in NZGT was disposed of as at 14 March 2011.

8.9.2 Mortgage investments

The Suncorp Group has mortgage loan investments of $63 million (2010: $85 million) through an investment fund which the Suncorp Group controls. In support for these mortgage loan investments, a $72 million drawdown facility was in place and was fully utilised as at 30 June 2010. The facility automatically reduces with each loan repayment and therefore equates to the outstanding loan balance at any point in time. The facility was secured over the assets of the investment fund and up to $24 million of the assets of Asteron Life Limited (New Zealand) shareholder fund. During the year ended 30 June 2011, the facility was replaced with a new facility funded from within the Suncorp Group and as such, the assets of the investment fund and Asteron Life Limited (New Zealand) shareholder fund are no longer pledged as security in favour to parties external to the Suncorp Group.

Suncorp Group and Corporate Disclosures

9. Revenue

9.1 Investment revenue

	CONSOLIDATED	
	2011 $m	2010 $m
Interest income	**827**	799
Trust distributions	**36**	103
Dividends	**159**	52
Changes in fair value of General Insurance financial assets	**56**	151
Changes in fair value of Life financial assets	**250**	429
Net profits on derivative and other financial instruments:		
realised	–	3
unrealised	**12**	17
Rental income from investment property	**18**	16
Total investment revenue	**1,358**	1,570

9. Revenue (continued)

9.2 Other income

	CONSOLIDATED 2011 $m	2010 $m
Gain on sale of subsidiary and investment in joint ventures	–	215
Fees and commissions	**262**	284
Fees from trust and fiduciary activities	**242**	229
Share of profits of associates and joint ventures	**4**	29
Other revenue	**106**	182
Total other income	**614**	939

10. Expenses

	Note	CONSOLIDATED 2011 $m	2010 $m
Staff expenses			
Wages, salaries, share-based payments and other staff costs [1]		**1,468**	1,420
Defined contribution superannuation expenses		**93**	86
		1,561	1,506
Occupancy and equipment expenses			
Operating lease rentals		**147**	155
Other		**52**	48
		199	203
Information technology and communication		**207**	152
Depreciation and amortisation			
Depreciation	16	**93**	104
Amortisation	18	**187**	254
		280	358
Other expenses			
Advertising and promotion expenses		**199**	190
Financial expenses		**53**	137
Other		**155**	219
		407	546
Total operating expenses		**2,654**	2,765

Note
1 Includes $17,104 thousand (2010: $10,893 thousand) relating to equity-settled share-based payment transactions.

11. Income tax

11.1 Income tax expense

	CONSOLIDATED	
	2011 $m	2010 $m
Profit before tax	702	1,118
Income tax using the domestic corporation tax rate of 30% (2010: 30%)	211	335
Increase in income tax expense due to:		
Non-deductible expenses	15	15
Imputation gross-up on dividends received	11	12
Statutory funds	10	(1)
Income tax offsets and credits	(37)	(39)
Amortisation of acquisition intangible assets	7	7
Other	7	13
	224	342
Under (Over) provision in prior years	21	(13)
Income tax expense on profit before tax	245	329
Income tax expense recognised in profit consists of:		
Current tax expense		
Current year	337	239
Adjustments for prior years	(25)	(6)
	312	233
Deferred tax expense		
Origination and reversal of temporary differences	(67)	96
Total income tax expense	245	329

Income tax of Life companies

Australia

Income tax expense includes an expense of $73 million (2010: $83 million) attributable to the Life companies' statutory funds.

For Australia, the income tax expense is partly determined on a product basis and partly determined on a profit basis. The income tax expense has been determined after aggregating various classes of business, each with different tax rates. The statutory rates of taxation applicable to the taxable income of significant classes of business are as follows:

	APPLICABLE TAX RATE	
	2011 %	2010 %
Class of business		
Complying superannuation business [1]	15	15
Ordinary class of business	30	30
Shareholder funds	30	30

Note

1 Includes Virtual Pooled Superannuation Trust (VPST).

New Zealand

In New Zealand, a corporate tax rate of 30% (2010: 30%) applies for all classes of business.

The Government in New Zealand has announced a reduction in the company tax rate from 30% to 28% for income years after 1 October 2010. For the Suncorp Group's New Zealand companies the effective date will be 1 July 2011. Deferred tax assets and liabilities for the current and comparative year have been adjusted accordingly on an estimated realisation basis, resulting in a deferred tax expense of $1 million.

11. Income tax (continued)

11.2 Current tax liabilities

	CURRENT TAX RECEIVABLE[1]		CURRENT TAX LIABILITY	
	2011 $m	2010 $m	2011 $m	2010 $m
Consolidated				
Current tax receivable (liability) relating to:				
Australian tax consolidated group	–	2	(144)	–
Entities outside of the Australian tax consolidated group:				
New Zealand subsidiaries	9	–	–	(1)
Other	–	–	(1)	–
Balance at the end of the financial year	9	2	(145)	(1)

Note

1 Current tax receivables are included in other assets in note 17.

11.3 Deferred tax assets and liabilities

11.3.1 Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	CONSOLIDATED					
	Assets		Liabilities		Net	
	2011 $m	2010 $m	2011 $m	2010 $m	2011 $m	2010 $m
Property, plant and equipment	23	17	–	–	23	17
Intangible assets	–	–	(206)	(258)	(206)	(258)
Employee benefits	55	47	–	–	55	47
Provisions	289	312	(2)	(18)	287	294
Other items	85	71	(96)	(70)	(11)	1
Tax assets (liabilities)	452	447	(304)	(346)	148	101
Set-off of tax	(304)	(346)	304	346	–	–
Net tax assets	148	101	–	–	148	101

	Assets		Liabilities	
	2011 $m	2010 $m	2011 $m	2010 $m
Movements				
Balance at the beginning of the financial year	447	643	(346)	(383)
(Charged) credited to profit or loss	27	(193)	40	97
Credited (charged) to equity	(23)	–	2	(60)
Acquisition/disposal of subsidiaries	1	(3)	–	–
Balance at the end of the financial year	452	447	(304)	(346)

There are no unrecognised deferred tax assets and liabilities.

11.3.2 Deferred tax recognised directly in equity

	CONSOLIDATED	
	2011 $m	2010 $m
Deferred tax recognised directly in equity		
Relating to cash flow hedges	15	56
Relating to available-for-sale financial assets	9	4
Relating to other	(3)	–
	21	60

11.4 Tax consolidation

Since the Company became the ultimate parent entity for the Suncorp Group on 7 January 2011, the Company is the head company of a tax consolidated group comprising of all Australian wholly owned entities within the Suncorp Group. Prior to this date, Suncorp-Metway Ltd was the head company of the tax consolidated group in Australia. In the opinion of the directors, this limits the joint and several liability of the wholly owned subsidiaries in the case of default by the head company of the tax consolidated group. Under the tax-sharing agreement, the wholly owned entities fully compensate the Company for any current tax payable assumed.

11.5 *The Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009* (TOFA legislation)

Compliance with the TOFA legislation is mandatory for the tax consolidated group for tax years beginning on or after 1 July 2010. The Suncorp Group has accepted the default method of accruals or realisation and has not made any elections regarding transitional financial arrangements or other elective timing methods. As a result, there have been no material impacts on the Suncorp Group's financial statements upon adoption of the TOFA legislation.

12. Share-based payments

The Suncorp Group operates a number of employee share plans. Shares required for the share plans are acquired by a special purpose trustee and/or custodial companies in ordinary trading on the Australian Securities Exchange.

Features of the plans currently in operation are set out below:

SHARE PLANS	EXECUTIVE PERFORMANCE SHARE PLAN (EPSP)	EXEMPT EMPLOYEE SHARE PLAN (EESP)	DEFERRED EMPLOYEE SHARE PLAN (DESP)	NON-EXECUTIVE DIRECTORS SHARE PLAN (NEDSP)
Method of settlement	Equity-settled. Cash-settled in limited circumstances as elected by the Board	Equity-settled	Equity-settled	Equity-settled
Eligible plan participant	Executives	Employees not part of the EPSP	Employees can elect to participate	Non-executive directors or their associates as approved by the Board can elect to participate.
Basis of share grant/issue	Value of shares granted (offered) is determined by the Board based on the executive's level of remuneration and individual performance.	Market value of shares up to $1,000 per employee per year may be granted by the Board based on the Suncorp Group's overall performance.	Employees to fund the acquisition of shares to be held under this Plan from their pre-tax remuneration up to a maximum value of $5,000	Non-executive directors nominate a percentage of their pre-tax remuneration up to a maximum of $5,000 per annum to fund the acquisition of shares on market. Shares acquired are held in the Plan for a maximum of seven years from the date of acquisition.
Vesting	Subject to satisfaction of performance criteria over the performance period	Fully vested, not subject to forfeiture	As the acquisition of shares is funded through the participating employee's or non-executive director's remuneration, the shares are fully vested at the date of acquisition.	
Performance criteria	Refer to note 12.1.1	None	None	None
Minimum holding period	None after shares are vested	Earlier of three years or upon cessation of employment	Earlier of one year or upon cessation of employment	None
Plan maximum limit	Shares can only be granted or issued under the plans if the number to be granted or issued will not exceed 5% of total shares on issue for the Company when aggregated with the number of shares granted or issued during the previous five years for all share plans operating by the Company.			
Dividend entitlements	Vested shares carry full entitlement to dividend from the grant date (less any taxes paid by the Plan Trustee in respect of such dividends).	Full entitlement from when the shares are allocated to the participating employee in the Plan.	Full entitlement to dividend from when the shares are acquired and held in the Plan.	
Voting rights	Voting rights are held by the Plan Trustee until shares are vested.	Participating employees have the right to vote from when the shares are allocated to them in the Plan.	Participating employees and non-executive directors have the right to vote from when the shares are acquired and held in the Plan.	

12. Share-based payments (continued)

12.1 Executive Performance Share Plan

12.1.1 EPSP performance criteria

GRANT DATE	1 OCTOBER 2005 – 3 MAY 2010	FROM 1 OCTOBER 2010
Performance criteria	The criteria is based on total shareholder returns (TSR) achieved by the Company over a performance period compared to the TSR of a comparator group.	
Comparator group	Top 50 Industrial companies in the S&P/ASX 100, excluding listed property trusts	Top 50 Industrial companies in the S&P/ASX 100, excluding mining companies and listed property trusts
Performance results and vesting rules	Shares granted under this plan will vest and are allocated based on the Company's TSR performance results:	
	COMPANY PERFORMANCE (TSR PERCENTILE RANKING)	% OF SHARES AVAILABLE FOR VESTING AND ALLOCATION
	< 50th percentile	Nil
	50th percentile	50%
	> 50th but < 75th percentile	an additional 2% of the shares will vest for each 1% increase (on a straight line basis) in the Company's TSR ranking above the 50th percentile
	75th percentile or above	100%
Initial performance period	The initial performance period commences on the grant date and ends on the initial vesting date which is generally three years after the grant date.	
At initial vesting date	The executive has the right to elect to receive an allocation of shares, based on the performance result described above, or extend the performance period a further two years. If the Executive elects to accept the year three performance result, any shares subject to that same offer that are not allocated are forfeited.	Shares are vested and allocated based on the performance result described above. Any shares offered that are not allocated are forfeited. No extension of performance period is permitted.
During the extended performance period (Period from the initial vesting date to the end of the extended performance period (generally at the end of year five))	Performance measurements are undertaken during the extended performance period on a six monthly basis. Executives electing to extend the performance period waive their right to make any further election in regard to acceptance of a performance result (and therefore cannot have shares allocated) until the end of year five. The executives' entitlement to an allocation of shares at the end of year five will be based on the highest performance measurement result recorded at any of the prescribed performance measurement points over the extended performance period. Shares not allocated at the end of the extended performance period are forfeited.	Not applicable

12.1.2 Shares granted under the EPSP

The fair value of services received in return for deferred ordinary shares granted is measured by reference to the fair value of the shares granted. The estimate of the fair value of the shares is measured based on a Monte Carlo simulation pricing model and reflects the fact that vesting of the shares is dependent on meeting performance criteria based on TSR. The vesting of the shares is also subject to non-market conditions but these are not taken into account in the grant date fair value measurement of the services received.

Inputs into the model include expected volatility which is based on the Company's (2010: Suncorp-Metway Ltd) historic volatility and a risk-free interest rate based on Australian Government bonds.

Details of the deferred ordinary shares granted under the EPSP as long-term incentives and the inputs for measurement of grant date fair value are detailed below:

	Inputs for measurement of grant date fair value						Number of shares unvested	
Grant date	Fair value at grant date	Share price	Expected volatility	Vesting period	Dividend yield	Risk-free interest rate	2011	2010
1 October 2005	$11.22	$19.71	20%	3 years	4.7%	5.34%	–	67,925
1 October 2006	$12.41	$21.94	17%	3 years	4.9%	5.80%	**337,813**	352,077
1 April 2007	$11.41	$20.80	19%	2.5 years	5.0%	6.20%	**165,371**	192,075
17 April 2007	$7.79	$20.57	19%	3 years	n/a	6.00%	**11,138**	11,607
1 October 2007	$14.60	$20.35	19%	5 years	5.1%	6.44%	**776,615**	851,589
1 October 2008	$4.32	$9.61	31%	3 years	7.2%	5.24%	**1,530,320**	1,680,121
1 April 2009	$4.32	$5.90	31%	2.5 years	7.2%	5.24%	–	23,750
1 October 2009	$6.34	$8.82	47%	3 years	5.6%	5.17%	**1,758,515**	1,926,397
1 October 2009	$6.56	$8.82	47%	4 years	5.6%	5.17%	**300,000**	300,000
1 October 2009	$6.75	$8.82	47%	5 years	5.6%	5.17%	**300,000**	300,000
3 May 2010	$5.94	$9.11	34%	3 years	4.6%	5.35%	**313,016**	313,016
1 October 2010	$5.31	$8.77	29%	3 years	4.1%	4.87%	**1,672,413**	–
8 June 2011	$4.13	$8.09	22%	2.3 years	4.1%	4.87%	**108,062**	–
							7,273,263	6,018,557

The movement in the number of shares granted under the EPSP is as follows:

	Number of shares 2011	Number of shares 2010
Outstanding at the beginning of the financial year	**6,018,557**	4,231,308
Granted during the year	**1,862,432**	3,148,675
Vested and allocated during the year	**(34,899)**	(18,187)
Forfeited during the year	**(572,827)**	(1,343,239)
Outstanding at the end of the financial year	**7,273,263**	6,018,557

12.2 Other share plans

For the DESP and NEDSP, shares are acquired and funded through the participating employee's or non-executive director's remuneration. These have a nil profit or loss impact for the Suncorp Group. Shares are acquired at various times during the year. The fair value of these shares are the market value of the shares when they were acquired. Other details are as follows:

	2011	2010
Total number of shares acquired through DESP and NEDSP	**179,606**	133,565
Fair value (market value at dates of grant)	**$1,559 thousand**	$1,146 thousand
Amounts received from employees and non-executive directors	**$1,559 thousand**	$1,146 thousand

The Suncorp Group granted to each eligible employee ordinary shares of the Company to the value of $500 under the EESP for the year ended 30 June 2011. These shares will be acquired on-market for allocation to employees by the share plan in October 2011. The Suncorp Group did not grant any shares under the EESP for the prior year.

13. Defined benefit fund obligations

Certain subsidiaries of the Company sponsor defined benefits superannuation plans for employees of the Suncorp Group. Each superannuation fund provides benefits to members on retirement, death or disability. All defined benefit funds are now closed to new members, with new employees now being given membership of a defined contribution fund.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuaries use the Projected Unit Cost method to annually determine the present value of the defined benefit obligations.

The table below shows the net position recognised in relation to defined benefit funds as at balance date.

The Suncorp Group intends to continue to contribute to the defined benefit funds at rates of 0%–20% (2010: 0%–20%) of salaries in line with the actuaries' latest recommendations. This will amount to an expected contribution of $5 million (2010: $4 million).

	Surplus 2011 $m	(Deficit) 2011 $m	Net Surplus (Deficit) 2011 $m	Surplus 2010 $m	(Deficit) 2010 $m	Net Surplus (Deficit) 2010 $m
Defined benefit funds – surplus (deficit) position						
Australia						
Suncorp Staff Superannuation Plan [1]	–	–	–	1	–	1
Suncorp Defined Benefit Fund [2]	2	–	2	7	–	7
AAMI Staff Superannuation Fund	1	–	1	1	–	1
New Zealand						
Vero and Asteron New Zealand Staff Pension Scheme	–	(19)	(19)	–	(19)	(19)
RIG Superannuation Fund	–	(4)	(4)	–	(5)	(5)
Commercial Union General Insurance Staff Pension Scheme	–	(1)	(1)	–	(1)	(1)
Guardian Assurance Superannuation Fund	1	–	1	–	–	–
Total surplus (deficit)	4	(24)	(20)	9	(25)	(16)

Notes
1 Current defined benefit members of the Suncorp Staff Superannuation Plan were transferred to the Suncorp Defined Benefit Fund on 30 June 2011.
2 Promina Group Staff Superannuation Fund was renamed Suncorp Defined Benefit Fund on 30 June 2011.

13.1 Principal actuarial assumptions and employer contributions

	CONSOLIDATED			
	Australia		New Zealand	
	2011 %	2010 %	2011 %	2010 %
Employer contribution rate [1]	14.9	15.1	0–20	0–20
Discount rate at 30 June	5.0	4.8	3.7	3.9
Expected return on fund assets at 30 June	6.9	6.9	5.7	5.7
Future salary increases	4.0	3.0	4.0	4.0

Note
1 Not all funds are contributing for members.

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees.

13.2 Historic summary

	CONSOLIDATED				
	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m
Present value of defined benefit obligations	**(160)**	(167)	(169)	(192)	(212)
Fair value of assets held by the funds	**149**	159	154	198	251
Deficit (surplus)	**(11)**	(8)	(15)	6	39
Experience gains (losses) arising on fund liabilities	**(2)**	–	4	(11)	11
Experience gains (losses) arising on fund assets	**–**	11	(35)	(30)	9

13.3 Current financial summary

		CONSOLIDATED	
	Note	2011 $m	2010 $m
Fair value of fund assets		**149**	159
Present value of defined benefit (DB) obligations – funded		**(93)**	(73)
Present value of defined benefit (DB) obligations – partly funded		**(67)**	(94)
Adjustment for contributions tax		**(9)**	(8)
Net liability recognised in the statement of financial position		**(20)**	(16)
Consisting of:			
Fund surplus recognised in Other assets	17	**4**	9
Fund deficit recognised in Payables and other liabilities	19	**(24)**	(25)
		(20)	(16)

	CONSOLIDATED			
	Fair value of fund assets		Present value of DB obligations	
	2011 $m	2010 $m	2011 $m	2010 $m
Reconciliation of movements				
Balance at the beginning of the financial year	**159**	154	**(167)**	(169)
Benefits paid	**(20)**	(19)	**20**	19
Contributions	**5**	4	**–**	–
Expected return on fund assets recognised in profit or loss	**10**	9	**–**	–
Current service and interest costs recognised in profit or loss	**–**	–	**(10)**	(11)
Actuarial gains (losses) recognised in other comprehensive income	**(2)**	11	**(9)**	(5)
Foreign currency exchange movement	**(3)**	–	**6**	(1)
Balance at the end of the financial year	**149**	159	**(160)**	(167)

13. Defined benefit fund obligations (continued)

13.3 Current financial summary (continued)

	CONSOLIDATED	
	2011 $m	2010 $m
Expected return on fund assets, current service and interest costs are recognised in profit or loss and included in the statement of comprehensive income as:		
Other income	2	1
Operating expense	(2)	(3)
	–	(2)
Recognised in other comprehensive income		
Actuarial losses (gains)	11	(5)
Cumulative actuarial losses (gains) recognised in other comprehensive income	11	–
Actual return on fund assets	(1)	19
	%	%
Major categories of funds assets as a percentage of total fund assets:		
Cash	8	6
Equities	56	58
Listed property	2	5
Fixed income	29	30
Other	5	1

14. Derivatives

	CONSOLIDATED					
	2011			2010		
	Notional value $m	Fair value Asset $m	Fair value Liability $m	Notional value $m	Fair value Asset $m	Fair value Liability $m
Exchange rate-related contracts						
Forward foreign exchange contracts	5,377	22	(58)	3,533	74	(31)
Cross currency swaps	9,144	–	(2,306)	15,546	287	(1,865)
Currency options	27	–	–	44	1	(1)
	14,548	22	(2,364)	19,123	362	(1,897)
Interest rate-related contracts						
Forward rate agreements	1,000	–	–	7,050	–	(1)
Interest rate swaps	47,116	141	(213)	50,408	465	(557)
Interest rate swaptions	384	1	(1)	–	–	–
Interest rate futures	4,103	2	(1)	4,428	2	–
Interest rate options	268	–	(1)	629	4	(3)
	52,871	144	(216)	62,515	471	(561)
Equity contracts						
Equity futures	26	–	–	43	–	(3)
Total derivative exposures – current	67,445	166	(2,580)	81,681	833	(2,461)

A description of how the Suncorp Group uses derivatives can be found in note 34.7.

15. Investment securities

15.1 Corporate – investment securities

	CORPORATE	
	2011 $m	2010 $m
Financial assets at fair value through profit or loss		
Interest-bearing securities	571	–
	571	–
Investments at cost		
Shares in subsidiaries	13,253	–
Total investment securities	13,824	–
Current	571	–
Non-current	13,253	–
Total investment securities	13,824	–

15.2 Consolidated – investment securities

	CONSOLIDATED	
	2011 $m	2010 $m
Financial assets at fair value through profit or loss		
Interest-bearing securities	14,172	12,759
Equity securities	1,327	1,346
Property trusts	292	282
Unit trusts	2,419	3,522
Other	73	64
	18,283	17,973
Available-for-sale financial assets		
Interest-bearing securities	5,731	3,117
Other	–	1
	5,731	3,118
Total investment securities	24,014	21,091
Current	18,484	18,295
Non-current	5,530	2,796
Total investment securities	24,014	21,091

16. Property, plant and equipment

Consolidated	Land & buildings 2011 $m	Leasehold Improvements 2011 $m	Plant & Equipment 2011 $m	Total 2011 $m	Land & buildings 2010 $m	Leasehold Improvements 2010 $m	Plant & Equipment 2010 $m	Total 2010 $m
Gross carrying amount	122	302	552	976	120	280	534	934
Less: accumulated depreciation and impairment losses	(22)	(197)	(406)	(625)	(20)	(168)	(388)	(576)
Balance at the end of the financial year	100	105	146	351	100	112	146	358
Movements								
Balance at the beginning of the financial year	100	112	146	358	104	127	176	407
Additions	1	5	99	105	–	14	67	81
Disposals/write-offs	–	(1)	(15)	(16)	(3)	(5)	(17)	(25)
Depreciation	(1)	(31)	(61)	(93)	(1)	(28)	(75)	(104)
Transfers between classes	–	20	(20)	–	–	4	(4)	–
Foreign currency exchange movement	–	–	(3)	(3)	–	–	(1)	(1)
Balance at the end of the financial year	100	105	146	351	100	112	146	358

As at 30 June 2011, $33 million of property, plant and equipment is classified as held for sale. This relates to the Suncorp Centre, a property located in Brisbane which is for sale as part of the Suncorp Group's Brisbane real estate consolidation project. The property is measured at its carrying amount upon being classified as held for sale. As the fair value less cost to sale is greater than the carrying amount, no impairment loss has been recognised in the consolidated statement of comprehensive income. It belongs to the Corporate operating segment. On 22 July 2011, the Suncorp Group entered into a call and put option agreement with a potential purchaser in relation to the sale of the Suncorp Centre for $63 million. Further details can be found in note 36.

17. Other assets

		CONSOLIDATED	
	Note	2011 $m	2010 $m
Accrued income		309	273
Investment property carried at fair value	17.1	137	144
Investments in associates and joint venture entities	17.2	60	62
Development property	17.3	37	44
Surplus on defined benefit funds	13	4	9
Other assets		139	102
Total other assets		686	634
Current		417	372
Non-current		269	262
Total other assets		686	634

17.1 Investment property

Investment property comprises a number of commercial properties held for short-term rentals and long-term leases to third parties and premises held for capital appreciation. Each of the long-term leases contains an initial non-cancellable period of 30 years. Subsequent renewals are negotiated with the lessee.

Investment property valuations are based on independent assessments made by a member of the Australian Property Institute. As at 30 June 2011, a $7 million decrease (2010: $12 million decrease) in the fair value of investment property was recorded in the profit or loss.

The Suncorp Group has entered into lease securitisation and defeasance transactions under which the Suncorp Group has agreed not to sell or create a charge over investment properties with a fair value of $105 million (2010: $114 million) without the consent of the other parties to the transaction.

17.2 Investment in associates and joint venture entities

	ASSOCIATES		JOINT VENTURE ENTITIES	
	2011 $m	2010 $m	2011 $m	2010 $m
Summary of financial information of equity accounted investees				
Total assets	**4**	25	**94**	153
Total liabilities	**–**	10	**60**	89
Revenues	**6**	52	**125**	604
Expenses	**6**	51	**118**	549
Share of net profit (loss) recognised	**–**	1	**4**	28

There are no material lease commitments, other commitments or contingent liabilities of the associates or joint venture entities.

17.3 Investment in joint venture operations and assets

	Principal activity	Ownership interest 2011 %	Ownership interest 2010 %
Joint venture operations			
National Transport Insurance	Facilitation of insurance arrangements	**50**	50
Joint venture assets			
Polaris data centre	Property investment	**50**	50
Spring farm residential development	Property development	**50**	50

Share of joint venture assets included in the consolidated statement of financial position are as follows:

	CONSOLIDATED	
	2011 $m	2010 $m
Other assets – development property	**37**	44
Property, plant and equipment	**69**	69
Total joint venture assets	**106**	113

There are no material commitments related to the joint venture assets.

18. Goodwill and intangible assets

	CONSOLIDATED					
	Goodwill $m	Brands $m	Customer contracts & other relationships $m	Outstanding claims liability intangible $m	Software $m	Total $m
2011						
Gross carrying amount	5,266	653	1,239	187	563	7,908
Less: accumulated amortisation and impairment losses	(260)	(114)	(625)	(122)	(477)	(1,598)
Balance at the end of the financial year	5,006	539	614	65	86	6,310
Movements in intangible assets						
Balance at the beginning of the financial year	5,147	568	736	83	93	6,627
Acquisitions	10	–	–	–	48	58
Amortisation	–	(24)	(96)	(18)	(49)	(187)
Foreign currency exchange movement	(8)	–	–	–	–	(8)
Disposals	(143)	(5)	(26)	–	(6)	(180)
Balance at the end of the financial year	5,006	539	614	65	86	6,310
Maximum remaining useful life	Indefinite	46 years	26 years	16 years	5 years	

	Goodwill $m	Brands $m	Customer contracts & other relationships $m	Outstanding claims liability intangible $m	Software $m	Total $m
2010						
Gross carrying amount	5,407	661	1,285	187	551	8,091
Less: accumulated amortisation and impairment losses	(260)	(93)	(549)	(104)	(458)	(1,464)
Balance at the end of the financial year	5,147	568	736	83	93	6,627
Movements in intangible assets						
Balance at the beginning of the financial year	5,135	593	843	106	159	6,836
Acquisitions through business combinations	1	–	–	–	–	1
Other acquisitions	9	–	1	–	39	49
Amortisation	–	(25)	(108)	(23)	(98)	(254)
Foreign currency exchange movement	2	–	–	–	–	2
Disposals	–	–	–	–	(7)	(7)
Balance at the end of the financial year	5,147	568	736	83	93	6,627
Maximum remaining useful life	Indefinite	47 years	27 years	17 years	5 years	

All intangible assets except goodwill have finite useful lives.

18.1 Impairment tests for cash-generating units containing goodwill

For the purpose of the annual impairment test, goodwill is allocated to significant cash-generating units (CGU) which represent the Suncorp Group's operating segments. The carrying amount of goodwill allocated to each CGU is then compared to its recoverable amount and if the recoverable amount is lower, the asset is written down. For the year ended 30 June 2011, no impairment loss has been recognised (2010: nil).

Goodwill allocated to each CGU has not changed during the current financial year as a result of the Suncorp Group's restructure.

	CONSOLIDATED	
	2011 $m	2010 $m
The following CGUs have significant carrying amounts of goodwill		
General Insurance – Commercial unit	**1,759**	1,759
General Insurance – Personal unit	**2,377**	2,373
General Insurance – New Zealand unit	**241**	250
Life unit	**372**	515
Banking unit	**257**	250
	5,006	5,147

The recoverable amount of each CGU is based on its value in use. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external and internal sources of data.

(a) General Insurance and Banking CGUs

Value in use for the General Insurance and Banking CGUs was determined by discounting the future cash flows generated from the continuing use of units and was based on the following key assumptions, for which the values have been obtained on the basis of past experience:

- Cash flows being projected from the financial forecasts prepared by the business units covering a five-year period from 1 July 2011 (2010: five year period from 1 July 2010). Cash flows beyond the next five years (2010: five years) are extrapolated using a constant growth rate of 3.0% (2010: 3.0%), which does not exceed the long-term average growth rate for the industry.
- Post-tax discount rates ranging from 9.6% to 11.7% (2010: 10.5% to 11.5%), representing each CGU's cost of capital based on a weighted average of risk-based capital. This is equivalent to 12.6% to 15.6% (2010: 14.1% to 15.5%) on a pre-tax basis.

The following table summarises the key assumptions used in the value in use calculations and, where relevant, shows the values the assumptions would need to move to (trigger points) before the carrying value for the CGU would exceed its recoverable value.

Cash-generating unit	Discount rate		Terminal growth rate		Return on GI Technical Reserves		Return on GI Shareholder Funds		Average growth in net earned premium	
	Assumed %	Trigger point %	Assumed %	Trigger point %	Assumed %	Trigger point %	Assumed %	Trigger point %	Assumed %	Trigger point %
2011										
Personal Insurance	**9.6**	**13.3**	**3.0**	**< 0**	**6.4**	**< 0**	**6.6**	**< 0**	**5.3**	**< 0**
Commercial Insurance	**9.6**	**12.1**	**3.0**	**< 0**	**6.4**	**2.6**	**6.6**	**< 0**	**6.2**	**< 0**
Vero New Zealand	**9.6**	**10.8**	**3.0**	**1.2**	**5.5**	**1.2**	**6.0**	**2.3**	**5.5**	**< 0**
Banking	**11.7**	**13.0**	**3.0**	**1.1**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

Cash-generating unit	Discount rate		Terminal growth rate		Return on GI Technical Reserves		Return on GI Shareholder Funds		Average growth in net earned premium	
	Assumed %	Trigger point %	Assumed %	Trigger point %	Assumed %	Trigger point %	Assumed %	Trigger point %	Assumed %	Trigger point %
2010										
Personal Insurance	10.5	17.1	3.0	n/a	5.7	< 0	6.8	< 0	7.0	< 0
Commercial Insurance	10.5	12.5	3.0	n/a	5.7	2.0	6.8	0.0	7.5	< 0
Vero New Zealand	10.5	15.3	3.0	n/a	5.5	< 0	5.8	< 0	7.6	< 0
Banking	11.5	14.6	3.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a

n/a = assumption not relevant to this CGU or trigger point unlikely to be reached.

18. Goodwill and intangible assets (continued)

18.1 Impairment tests for cash generating units containing goodwill (continued)

(b) Life CGU

The recoverable amount of the Life CGU has been determined by reference to an appraisal value which comprises the traditional embedded value of the Life portfolios and other relevant businesses and adds a component for the value of future new business. The embedded value of the Life companies and the value of one year's new business were assessed as at 30 June 2011 using discounted cash flow techniques. The value of the businesses other than the Life companies within the Life CGU was also assessed as at 30 June 2011. Key assumptions in the value in use calculations include the effective risk-adjusted discount rates and the multiple applied to the value of one year's sales.

The following table summarises the key economic assumptions used for valuing in-force business and the value of one year's new business which are based on long-term best estimate assumptions.

	2011		2010	
	Australia %	New Zealand %	Australia %	New Zealand %
Investment return for underlying asset classes				
Risk-free rate (at 10 years)	5.3	6.4	5.2	5.4
Cash	6.0	5.3	5.7	5.5
Fixed interest	6.1	5.7	5.8	5.8
Australian equities (includes allowance for franking credits)	10.4	9.8	10.3	10.0
International equities	9.4	8.8	9.2	9.9
Property	7.8	7.8	7.7	8.0
Investment returns (net of tax)	4.2	4.6	5.2	5.2
Inflation				
Benefit indexation	2.5	2.5	3.0	2.5
Expenses inflation	3.0	2.5	3.0	2.5
Risk discount rate	9.3	9.1	9.2	9.4

Applying the value in use amount and a multiple of seven times one year's new sales exceeds the current carrying value of the Life CGU.

The following key assumption changes would result in the carrying value of the Life CGU exceeding the recoverable value (appraisal value):

– an increase in interest rates by 0.8% (impacts the discount rate and investment returns assumptions)
– an increase in the discontinuance rates assumptions by 3.5%; or
– an increase in claims expense assumptions by 2.5%.

19. Payables and other liabilities

	Note	CONSOLIDATED 2011 $m	2010 $m
Accrued interest payable		**512**	627
Amounts due to reinsurers		**659**	137
Trade creditors and accrued expenses		**612**	916
Investment settlements		**8**	125
Excess of defined benefit obligations over plan assets	13	**24**	25
Employee benefits and related on-costs liabilities		**278**	255
Drawdown facility	8.9.2	**–**	72
Other liabilities		**131**	129
Total payables and other liabilities		**2,224**	2,286
Current		**2,065**	2,139
Non-current		**159**	147
Total payables and other liabilities		**2,224**	2,286

The following assumptions were adopted in measuring present values of long service leave employee benefits which are included under employee benefits and related on-costs liabilities above:

	CONSOLIDATED 2011	2010
Weighted average rate of increases in annual employee benefits to settlement of the liabilities	**3.5%**	3.0%
Weighted average discount rate	**4.88%–4.93%**	4.50%–4.67%
Weighted average term to settlement of liabilities	**3–4 years**	3–4 years

20. Subordinated notes

	Note	CONSOLIDATED 2011 $m	2010 $m
General Insurance subordinated notes	6.7	**678**	690
Banking subordinated notes	7.9	**846**	1,492
		1,524	2,182

21. Share capital

	CONSOLIDATED			
	Issued capital $m	Share-based payments $m	Treasury shares $m	Total share capital $m
Balance as at 30 June 2009	12,480	51	(106)	12,425
Shares issued	195	–	–	195
Share-based payments	–	2	–	2
Treasury share movements	–	–	(4)	(4)
Balance as at 30 June 2010	**12,675**	**53**	**(110)**	**12,618**
Shares issued	**42**	**–**	**–**	**42**
Share-based payments	**–**	**11**	**–**	**11**
Treasury share movements	**–**	**–**	**(9)**	**(9)**
Balance as at 30 June 2011	**12,717**	**64**	**(119)**	**12,662**

Ordinary shares

Reconciliation of number of ordinary shares on issue:

	CONSOLIDATED	
	2011 Number	2010 Number
Balance at the beginning of the financial year	**1,281,390,524**	1,257,377,460
Issued under the dividend reinvestment plan for:		
Final dividend allotted at $8.97 (2010: $7.92) per share	**–**	13,519,822
Interim dividend allotted at $8.06 (2010: $8.33) per share	**5,210,456**	10,493,242
Balance at the end of the financial year	**1,286,600,980**	1,281,390,524

On 1 October 2010, 5,944,385 ordinary shares allotted at the issue price of $8.97 per share under the Dividend Reinvestment Plan in respect of the 30 June 2010 final dividend were acquired on market for delivery to shareholders. This resulted in no issue of new shares.

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

Dividend reinvestment plan

All eligible shareholders can elect to participate in the dividend reinvestment plan to reinvest all or part of their dividends, with no brokerage or transaction costs.

Share-based payments

Share-based payments represent the grant date fair value of share-based payments provided to employees.

22. Reserves

	Note	CONSOLIDATED General reserve for credit losses $m	Hedging reserve $m	Assets available-for-sale reserve $m	Foreign currency translation reserve $m	Total reserves $m
Balance as at 30 June 2009		195	(254)	6	(70)	(123)
Transfer from retained profits		31	–	–	–	31
Amount recognised in equity		–	191	23	–	214
Amount transferred from equity to profit or loss		–	13	(10)	–	3
Income tax	11.3.2	–	(56)	(4)	–	(60)
Exchange differences on translation of foreign operations		–	–	–	9	9
Balance as at 30 June 2010		**226**	**(106)**	**15**	**(61)**	**74**
Transfer (to) retained profits		**(69)**	**–**	**–**	**–**	**(69)**
Amount recognised in equity		**–**	**46**	**50**	**–**	**96**
Amount transferred from equity to profit or loss		**–**	**14**	**(19)**	**–**	**(5)**
Income tax	11.3.2	**–**	**(15)**	**(9)**	**–**	**(24)**
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**(39)**	**(39)**
Balance as at 30 June 2011		**157**	**(61)**	**37**	**(100)**	**33**

General reserves for credit losses

The general reserve for credit losses represents the difference between the Suncorp Group's specific and collective provisions for impairment and the estimate of credit losses across the credit cycle based on guidance provided by APRA.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

Assets available-for-sale reserve

The assets available-for-sale reserve represents the cumulative net change in the fair value of available-for-sale assets until the asset is derecognised or impaired.

Foreign currency translation reserve

The foreign currency translation reserve consists of all foreign exchange differences arising from the translation of the financial statements of foreign operations that have a functional currency other than Australian dollars.

23. Suncorp Group capital management

The capital management strategy of the Suncorp Group is to optimise shareholder value by managing the level, mix and use of capital resources. The main objectives are to support the Suncorp Group's credit rating, ensure there are sufficient capital resources to maintain the business and operational requirements, retain sufficient capital to exceed externally imposed capital requirements, and ensure the Suncorp Group's ability to continue as a going concern. The Suncorp Group uses a range of instruments and methodologies to effectively manage capital including share issues, dividend policies and subordinated debt issues.

The Suncorp Group's capital policy is to hold all surplus capital in Suncorp Group Limited (2010: Suncorp-Metway Ltd), being the ultimate parent entity of the Suncorp Group. Capital policy is reviewed regularly and where appropriate, adjustments are made to internal capital targets to reflect changes in economic conditions and risk characteristics of the Suncorp Group's activities. The Suncorp Group's capital position is monitored on a continuous basis.

The Suncorp Group and its insurance and banking entities are subject to, and are in compliance with, externally imposed capital requirements set and monitored by APRA during the current and prior financial years.

APRA also requires regulated entities to maintain internal capital targets. It is the Suncorp Group's policy to hold regulatory capital levels in excess of APRA requirements. The target capital for the General Insurance business is based on a multiple of the various minimum capital requirement (MCR) components. For the Banking business the capital target is a ratio representing total capital as a percentage of total risk-weighted assets. The Life business capital target is an amalgamation of target capital for statutory funds, minimum capital required for shareholder funds and for investment management entities; the greater of 0.25 per cent of funds under management, or net tangible asset requirements. Further details on the capital requirements applicable to General Insurance, Banking and Life can be found in notes 6.8, 7.11, and 8.8 respectively.

Capital requirements are measured at three levels of consolidation within the Suncorp Group. Each of the licensed general insurers, authorised deposit taking institution and life insurance funds is a Level 1 reporting entity. Certain banking entities which meet the APRA definition of extended licensed entities (ELE) are also reported as Level 1. The Level 2 General Insurance group consists of Suncorp Insurance Holdings Limited and its subsidiaries. The Level 2 Banking Group consists of Suncorp-Metway Ltd, and its banking subsidiaries which include banking entities that are not ELE. Level 3 Conglomerate consists of Suncorp Group Limited and its subsidiaries (2010: Suncorp-Metway Ltd and its subsidiaries).

Within the Suncorp Group, regulatory capital is divided into Tier 1 and Tier 2 capital:

- Tier 1 Capital consists primarily of shareholders' equity plus other capital instruments considered acceptable by APRA, less goodwill and other prescribed deductions.
- Tier 2 Capital is comprised primarily of hybrid and debt instruments considered acceptable by APRA less any prescribed deductions. In line with APRA's capital adequacy measurement rules, perpetual floating rate notes are included in upper Tier 2 capital. The term subordinated notes are included in lower Tier 2 capital and the value recognised as regulatory capital is reduced by 20% for each of their last five years to maturity.

Regulated capital will differ from the statutory capital disclosed in the consolidated statement of financial position.

The following table demonstrates the distribution of regulatory capital across the Suncorp Group.

	AS AT 30 JUNE 2011				
	General Insurance[4] $m	Banking $m	Life $m	SGL, Corporate Services and Consolidation $m	Group[5] $m
Tier 1					
Ordinary share capital	–	–	–	12,717	12,717
Subsidiary share capital (eliminated upon consolidation)	8,016	3,012	2,225	(13,253)	–
Reserves and non-controlling interests	(69)	(987)	241	737	(78)
Retained profits[1]	(433)	941	6	533	1,047
Preference shares	–	823	–	15	838
Insurance liabilities in excess of liability valuation	516	–	–	–	516
Less goodwill and brands	(5,263)	(264)	(702)	5	(6,224)
Less software assets	(5)	–	(7)	(74)	(86)
Less other intangible assets	–	(47)	–	–	(47)
Less deferred tax asset	–	(143)	–	34	(109)
Less other required deductions[2]	(6)	–	–	(1)	(7)
Total Tier 1 capital	2,756	3,335	1,763	713	8,567
Tier 2					
Preference shares not included in Tier 1	–	15	–	(15)	–
APRA general reserve for credit losses	–	248	–	–	248
Asset revaluation reserves	–	17	–	–	17
Subordinated notes	769	1,053	–	–	1,822
Total Tier 2 capital	769	1,333	–	(15)	2,087
Total capital base	3,525	4,668	1,763	698	10,654
Represented by:					
Capital in regulated entities	3,458	4,606	1,738	–	9,802
Capital in unregulated entities	67	62	25	698	852
	3,525	4,668	1,763	698	10,654
Target capital base[3]	3,059	4,296	1,686	368	9,409

Notes

1 For Banking and General Insurance, this represents the business line retained profits determined by using the APRA calculation. APRA requires accrual of expected dividends in the Bank and General Insurance current year profits. To allow for consistency across the Suncorp Group, expected dividends are also included for Life.

2 Other required deductions include surpluses in defined benefit funds and internal funding transactions of a capital nature.

3 Internal capital targets.

4 These numbers are for consolidated segments. They do not align with the regulatory reporting groups used in the Banking capital adequacy and General Insurance minimum capital requirements calculations.

5 Represents the Suncorp Group position net of all consolidation eliminations.

23. Suncorp Group capital management (continued)

	AS AT 30 JUNE 2010				
	General Insurance[4] $m	Banking $m	Life $m	SGL, Corporate Services and Consolidation $m	Group[5] $m
Tier 1					
Ordinary share capital	–	12,730	–	–	12,730
Subsidiary share capital (eliminated upon consolidation)	8,321	–	2,225	(10,546)	–
Reserves	10	53	253	(257)	59
Retained profits[1]	(81)	886	23	186	1,014
Preference shares	–	879	–	–	879
Insurance liabilities in excess of liability valuation	424	–	–	–	424
Less goodwill and brands	(5,607)	(7,809)	(913)	7,795	(6,534)
Less software assets	(9)	(61)	(23)	–	(93)
Less other intangible assets	–	(95)	–	–	(95)
Less deferred tax asset	–	(191)	–	141	(50)
Less other required deductions[2]	(16)	–	–	–	(16)
Less Tier 1 deductions for investments in subsidiaries, capital support	–	(1,428)	–	1,428	–
Total Tier 1 capital	3,042	4,964	1,565	(1,253)	8,318
Tier 2					
APRA general reserve for credit losses	–	346	–	–	346
Asset revaluation reserves	–	7	–	–	7
Subordinated notes	778	1,628	–	–	2,406
Less Tier 2 deductions for investments in subsidiaries, capital support	–	(1,428)	–	1,428	–
Total Tier 2 capital	778	553	–	1,428	2,759
Total capital base	3,820	5,517	1,565	175	11,077
Represented by:					
Capital in regulated entities	3,782	5,478	1,654	–	10,914
Capital in unregulated entities	38	39	(89)	175	163
	3,820	5,517	1,565	175	11,077
Target capital base[3]	3,395	4,828	1,554	–	9,777

Notes

1 For Banking and General Insurance, this represents the business line retained profits determined by using the APRA calculation. APRA requires accrual of expected dividends in the Bank and General Insurance current year profits. To allow for consistency across the Suncorp Group, expected dividends are also included for Life.

2 Other required deductions include surpluses in defined benefit funds and internal funding transactions of a capital nature.

3 Internal capital targets.

4 These numbers are for consolidated segments. They do not align with the regulatory reporting groups used in the Banking capital adequacy and General Insurance minimum capital requirements calculations.

5 Represents the Suncorp Group position net of all consolidation eliminations.

24. Notes to the consolidated statement of cash flows

24.1 Reconciliation of cash flows from operating activities

	CONSOLIDATED	
	2011 $m	2010 $m
Profit for the financial year	**457**	789
Non-cash items		
Amortisation of share-based payments	**10**	11
Change in fair value of trading securities	**3**	11
Change in fair value of investments	**(217)**	(557)
Change in fair value of subordinated debt	**(20)**	(90)
Change in fair value of investment property	**7**	12
Write-off for liability adequacy test deficiency	**35**	–
Impairment loss on joint ventures	**–**	17
Impairment losses on loans and advances	**325**	479
Net profits on financial liabilities at amortised cost	**–**	(2)
Depreciation/amortisation of property, plant and equipment and intangible assets	**280**	358
(Profit) loss on disposal of subsidiaries, associates and joint ventures	**105**	(215)
Loss on disposal of property, plant and equipment	**3**	2
Share of profits of associates and joint ventures	**(4)**	(29)
Dividends received from associates and joint ventures	**2**	83
Change in assets and liabilities		
Net movement in tax balances	**69**	(52)
(Increase) in other assets	**(3,635)**	(433)
Decrease (increase) in trading securities	**3,278**	(1,550)
Decrease (increase) in Banking loans, advances and other receivables	**2,194**	2,681
Increase (decrease) in deposits and short-term borrowings	**4,760**	(3,774)
Increase (decrease) in payables and other liabilities	**75**	(112)
Increase in General Insurance and Life liabilities	**3,327**	709
Net cash from operating activities	**11,054**	(1,662)

24.2 Reconciliation of cash and cash equivalents to the consolidated statement of cash flows

	CONSOLIDATED	
	2011 $m	2010 $m
Cash and cash equivalents at the end of the financial year in the statement of cash flows is represented by:		
Cash and cash equivalents	**1,271**	883
Receivables due from other banks	**226**	232
Payable due to other banks	**(31)**	(28)
	1,466	1,087

24. Notes to the consolidated statement of cash flows (continued)

24.3 Financing arrangements

	CONSOLIDATED			
	2011 Program limit $m	2011 Unused $m	2010 Program limit $m	2010 Unused $m
The Suncorp Group had the following debt programs outstanding at end of the financial year:				
USD $15 billion program	**13,968**	**7,141**	17,859	11,692
USD $5 billion program	**4,656**	**2,561**	5,953	5,953
Japanese Yen bond program	**–**	**–**	172	–
US144a MTN program	**13,968**	**11,844**	17,859	11,198
AUD TCD program	**5,000**	**180**	5,033	–
	37,592	**21,726**	46,876	28,843

25. Fair values of financial instruments

25.1 Comparison of fair value to carrying amounts

The following financial assets and liabilities are recognised and measured at fair value and therefore their carrying value equates to their fair value. The basis for determining their fair values is described in note 25.2.

- trading securities
- investment securities
- certain short-term offshore borrowings designated as financial liabilities at fair value through profit or loss
- derivatives; and
- managed funds units on issue.

The table below discloses the fair value of financial assets and liabilities that are not recognised and measured at fair value, together with the carrying amounts shown in the consolidated financial statements.

		CONSOLIDATED			
		2011		2010	
	Note	Carrying value $m	Fair value $m	Carrying value $m	Fair value $m
Financial assets					
Cash and cash equivalents	24.2	**1,271**	**1,271**	883	883
Receivables due from other banks	24.2	**226**	**226**	232	232
Banking loans, advances and other receivables	7.4	**48,639**	**48,855**	51,146	51,319
General Insurance assets [1]	6.5	**34**	**34**	309	309
Life assets [1]	8.5	**211**	**211**	163	163
Financial liabilities					
Deposits and short-term borrowings [2]	7.6	**35,018**	**35,047**	32,929	33,104
Payables due to other banks	24.2	**31**	**31**	28	28
Payables and other liabilities [3]	19	**1,922**	**1,922**	2,006	2,006
Securitisation liabilities	7.7	**3,532**	**3,682**	4,710	5,149
Debt issues	7.8	**10,031**	**10,079**	16,759	17,045
Subordinated notes	20	**1,524**	**1,536**	2,182	2,231
Preference shares	7.10	**830**	**850**	869	845

Notes

1 Only includes components of General Insurance assets and Life assets that are classified as financial assets.
2 Excludes short-term offshore borrowings designated as financial liabilities at fair value through profit or loss.
3 Only includes components of payables and other liabilities that are classified as financial liabilities.

Significant assumptions and estimates used to determine the fair values:

Financial assets

As cash and cash equivalents and receivables due from other banks are short term in nature or are receivable on demand, their carrying value approximates their fair value.

The carrying value of Banking loans, advances and other receivables is net of specific and collective provisions for impairment. For variable rate loans, excluding impaired loans, the carrying amount is considered a reasonable estimate of fair value. The fair value for fixed rate loans was calculated by utilising discounted cash flow models to determine the net present value of the portfolio future principal and interest cash flows, based on the interest rate repricing of the loans. The discount rates applied were based on the rates offered by Banking on current products with similar maturity dates.

For all other financial assets, the carrying value (amortised cost) is considered to be a reasonable estimate of fair value.

Financial liabilities

The carrying value at balance date of non-interest bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, is the fair value. Discounted cash flow models are used to calculate the fair value of other term deposits based upon deposit type and related maturities. As the payables due to other banks are short term in nature, their carrying value approximates fair value.

The fair value of debt issues, subordinated notes and preference shares are calculated based on either the quoted market prices at balance date or, where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument.

For all other financial liabilities which are short term in nature, the carrying value (amortised cost) is considered to be a reasonable estimate of fair value. For longer term liabilities, fair values have been estimated using the rates currently offered by Banking for similar liabilities with similar remaining maturities.

25.2 Fair value hierarchy

Financial assets and liabilities that are recognised and measured at fair value are categorised by a hierarchy which identifies the most significant input used in the valuation methodology:

- Level 1 – derived from quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2 – derived from other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly; or
- Level 3 – fair value measurement is not based on observable market data.

	CONSOLIDATED							
	Level 1 2011 $m	Level 2 2011 $m	Level 3 2011 $m	Total 2011 $m	Level 1 2010 $m	Level 2 2010 $m	Level 3 2010 $m	Total 2010 $m
Financial assets								
Trading securities	–	4,952	–	4,952	–	8,233	–	8,233
Investment securities	3,375	20,601	38	24,014	3,108	17,916	67	21,091
Derivatives	3	128	35	166	2	783	48	833
	3,378	25,681	73	29,132	3,110	26,932	115	30,157
Financial liabilities								
Deposits and short-term borrowings [1]	–	(3,840)	–	(3,840)	–	(1,029)	–	(1,029)
Derivatives	(3)	(2,413)	(164)	(2,580)	(1)	(2,292)	(168)	(2,461)
Managed funds units on issue	(26)	(672)	(3)	(701)	(225)	(209)	(3)	(437)
	(29)	(6,925)	(167)	(7,121)	(226)	(3,530)	(171)	(3,927)

There have been no significant transfers between Level 1 and Level 2 during the financial year (2010: nil).

Note

1 Only includes short-term offshore borrowings designated as financial liabilities at fair value through profit or loss.

25. Fair values of financial instruments (continued)

25.2 Fair value hierarchy (continued)

Level 3 investment securities consist of interest-bearing securities and holdings in unlisted unit trusts which have suspended daily redemptions. The valuation methodology used for these Level 3 investment securities is based on the discount rate determined by the relative trading value to face value for interest-bearing securities and the latest available redemption price published by the external manager for the unlisted unit trusts.

Level 3 managed funds on issue consist of a property trust with the significant input being the valuation of property.

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 rights for actively traded tenor points. Where interpolation is used to value an instrument for the correct time period observable inputs such as Bank Bill Swap Rate (BBSW), yield curve 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.

	CONSOLIDATED							
	Asset		Liability		Asset		Liability	
Financial instruments classified as Level 3 in the fair value hierarchy	Investment securities 2011 $m	Derivatives 2011 $m	Derivatives 2011 $m	Managed funds units on issue 2011 $m	Investment securities 2010 $m	Derivatives 2010 $m	Derivatives 2010 $m	Managed funds units on issue 2010 $m
Balance at the beginning of the financial year	67	48	(168)	(3)	262	97	(46)	(3)
Total gains or losses included in profit or loss for the financial year[1]:								
Investment revenue	1	–	–	–	(3)	–	–	–
Change in fair value recognised in other comprehensive income	–	–	(13)	–	–	(72)	(10)	–
Transfers in	4	–	–	–	–	–	–	–
Transfer out to Level 2	(4)	–	–	–	(17)	–	–	–
Purchases	–	–	–	–	75	–	–	–
Sales	(30)	–	–	–	(224)	–	–	–
Issues	–	–	–	–	14	–	–	–
Settlements	–	–	–	–	(40)	–	–	–
Other movements	–	(13)	17	–	–	23	(112)	–
Balance at the end of the financial year	38	35	(164)	(3)	67	48	(168)	(3)

Note

1 All relate to assets and liabilities held at the end of the financial year.

26. Parent entity and subsidiaries

26.1 Ultimate parent entity

As the Suncorp Group has applied amendments to the *Corporations Act 2001* that remove the requirement for the Suncorp Group to include parent entity financial statements, financial details of the parent are included below.

On 7 January 2011, the Suncorp Group completed a restructure with Suncorp Group Limited replacing Suncorp-Metway Ltd as the ultimate holding company of the Suncorp Group. Further details on the restructure can be found in note 1 to the consolidated financial statements.

The Company was incorporated on 25 August 2010. Results of the Company are presented for the period from 25 August 2010 to 30 June 2011.

	COMPANY
	2011 $m
Results of the parent entity	
Profit for the period	534
Total comprehensive income for the period	534
Financial position of parent entity at year end	
Current assets	832
Total assets	14,260
Current liabilities	151
Total liabilities	151
Total equity of the parent entity consisting of:	
Share capital	12,780
Common control reserve	987
Retained earnings	342
Total equity	14,109

Capital and expenditure commitments

There are no parent entity capital and expenditure commitments.

Contingent liabilities

There are no parent entity contingent liabilities.

Parent entity guarantees

There are no parent entity guarantees.

26. Parent entity and subsidiaries (continued)

26.2 Material subsidiaries of Suncorp Group Limited

Material subsidiaries of Suncorp Group Limited include[1, 2]	Class of shares	Country of incorporation	Equity holding 2011 %	Equity holding 2010 %
General Insurance				
Suncorp Insurance Holdings Limited	Ordinary	Australia	**100**	100
Suncorp Insurance Services Limited[3,4] (formerly Promgroup Limited)	Ordinary	Australia	**100**	100
Suncorp Group Holdings Pty Limited	Ordinary	Australia	**100**	100
Vero Insurance New Zealand Limited	Ordinary	New Zealand	**100**	100
Vero Insurance Limited[9]	Ordinary	Australia	**100**	100
Australian Alliance Insurance Company Limited	Ordinary	Australia	**100**	100
Australian Associated Motor Insurers Limited	Ordinary	Australia	**100**	100
Skilled Drivers of Australia Limited[6]				
Suncorp Insurance Funding 2007 Limited	Ordinary	Australia	**100**	100
Suncorp Metway Insurance Ltd	Ordinary	Australia	**100**	100
GIO General Limited	Ordinary	Australia	**100**	100
Terri Scheer Insurance Pty Ltd	Ordinary	Australia	**100**	100
Banking				
SBGH Limited[5]	Ordinary	Australia	**100**	–
Suncorp-Metway Ltd	Ordinary	Australia	**100**	100
APOLLO Series Trusts (various)[7]	Units	Australia	**100**	100
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	**100**	100
SME Management Pty Limited	Ordinary	Australia	**100**	100
Life				
Suncorp Life Holdings Limited (formerly Asteron Group Limited)[3]	Ordinary	Australia	**100**	100
Asteron Life Limited	Ordinary	Australia	**100**	100
Guardian Financial Planning Pty Limited	Ordinary	Australia	**100**	100
Prominvest Pty Limited	Ordinary	Australia	**100**	100
Asteron Life Limited	Ordinary	New Zealand	**100**	100
Suncorp Mortgage Company NZ Limited	Ordinary	New Zealand	**100**	–
The New Zealand Guardian Trust Company Limited[8]	Ordinary	New Zealand	**–**	100
Tyndall Investment Management New Zealand Limited[8]	Ordinary	New Zealand	**–**	100
SIS Super Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Custodian Services Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Life & Superannuation Limited	Ordinary	Australia	**100**	100
Suncorp Portfolio Services Limited	Ordinary	Australia	**100**	100
Tyndall Investment Management Limited[8]	Ordinary	Australia	**–**	100
Corporate				
Suncorp Staff Pty Ltd (formerly Suncorp Metway Staff Pty Ltd)[3]	Ordinary	Australia	**100**	100
Suncorp Corporate Services Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Metway Executive Performance Share Plan Trust	Units	Australia	**100**	100

Notes

1 The indentation of entities represents a summarised legal entity hierarchy of the Suncorp Group as at 30 June 2011.
2 Non-operating and immaterial operating subsidiaries are excluded from the above list.
3 Name changed on 9 September 2010.
4 Also registered as an overseas company in New Zealand.
5 Subsidiary incorporated on 25 August 2010.
6 As Skilled Drivers of Australia Limited is a company limited by guarantee and Australian Associated Motor Insurers Limited is not entitled to dividends or capital distributions, the financial performance or position of the company is not consolidated into the Suncorp Group results.
7 These trusts are special purpose entities (SPEs) created as part of the Suncorp Group's loan securitisation program. As at 30 June 2011, the Suncorp Group held interests in ten trusts (2010: sixteen). Refer to note 33.1.1 for the basis of consolidation.
8 Entities disposed of during the year ended 30 June 2011. Refer to note 28.1.2 for details on the disposals.
9 Vero Insurance Limited (VIL) increased its interest in Australian Surety Corporation (ASC) from 50.5% interest to 100% interest on 31 March 2011. ASC was a subsidiary of VIL prior to this transaction and remains a subsidiary after this transaction.

27. Fiduciary activities

The Suncorp Group conducts fiduciary activities as trustee or custodian for various investment funds and trusts, approved deposit funds, superannuation funds, and wholesale and retail unit trusts. These activities result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not the property of the Suncorp Group and are not included in the consolidated financial statements.

Where subsidiaries, as single responsible entities or trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the subsidiaries will be required to settle them, the liabilities are not included in the consolidated financial statements.

28. Changes in the composition of the Suncorp Group

28.1 Subsidiaries

28.1.1 Acquisitions

On April 2011, the Suncorp Group acquired Taurus Trade Finance Pty Ltd for $8 million. The fair value of identifiable net assets acquired was $1 million, resulting in goodwill of $7 million.

28.1.2 Disposals

The Suncorp Group has disposed of investments and the details are summarised in the following table:

	New Zealand Guardian Trust 2011 $m	Tyndall Investment Management New Zealand Limited 2011 $m	Tyndall Investment Management Limited 2011 $m	Tyndall Quality Income Fund 2010 $m	Hooker Corporation Limited 2010 $m
Carrying value of assets and liabilities disposed					
Cash and cash equivalents	1	1	14	63	5
Investment securities	–	–	–	81	–
Property, plant and equipment	–	–	–	–	6
Other assets	5	2	9	–	6
Goodwill and intangible assets	80	4	96	–	8
Payables and other liabilities	(4)	(2)	(9)	–	(10)
Total carrying value of assets and liabilities deconsolidated	82	5	110	144	15
Reconciliation of cash movement					
Total consideration	32	17	69	144	67
Less consideration receivable	(16)	–	(4)	–	–
Less cash deconsolidated	(1)	(1)	(14)	(63)	(5)
Net cash inflow	15	16	51	81	62
Profit or loss on sale (before tax)	(56)	11	(64)	–	50
Disposal date	14 Mar 2011	1 Mar 2011	1 Mar 2011	30 Nov 2009	15 Oct 2009

28. Changes in the composition of the Suncorp Group (continued)

28.2 Associates and joint venture entities

28.2.1 Acquisitions

The Suncorp Group did not acquire any material interests in joint ventures or associates in the current or prior financial year.

28.2.2 Disposals

On 30 September 2010, the Suncorp Group received proceeds of $7 million for the sale of a 15% interest in the RACT Insurance Pty Ltd joint venture entity. The Suncorp Group now has a 50% share in the joint venture entity. In the prior year, on 7 October 2009, the Suncorp Group had received proceeds of $2 million for the sale of a 5% interest. Following this sale the Suncorp Group had a 65% share in the joint venture entity.

On 28 February 2010, the Suncorp Group sold its 50% shares in the RACQ Insurance Limited and RAA Insurance Holdings Limited for $280 million and $51 million respectively, resulting in a profit before tax of $165 million.

29. Key management personnel disclosures

The Suncorp Group has applied the exemption under AASB 124 *Related Party Disclosures* which exempts listed companies from providing remuneration disclosure in relation to their key management personnel in the notes to the financial statements where this information is disclosed in the Directors' Report. Information regarding key management personnel remuneration and some equity instruments disclosure is included in the Remuneration Report section of the Directors' Report.

29.1 Key management personnel compensation

The key management personnel compensation included in 'Staff expenses' (refer note 10) are as follows:

	CONSOLIDATED	
	2011 $000	2010 $000
Short-term employee benefits	**16,566**	17,731
Long-term employee benefits	**3,011**	1,060
Post-employment benefits	**1,311**	850
Share-based payments	**4,787**	5,869
Termination benefits	**1,318**	4,868
	26,993	30,378

29.2 Loans to key management personnel and their related parties

Loans to key management personnel and their related parties are secured housing loans and asset lines provided in the ordinary course of the Banking business. All loans have normal commercial terms, which may include staff discounts at the same terms available to all employees of the Suncorp Group. The loans may have offset facilities, in which case the interest charged is after the offset. No amounts have been written down or recorded as provisions, as the balances are considered fully collectable.

Details regarding loans outstanding at the reporting date to key management personnel and their related parties, where the individual's aggregate loan balance exceeded $100,000 at any time during the reporting period, are as follows:

	Balance 1 July 2010 $000	Balance 30 June 2011 $000	Interest charged $000	Highest balance during the year $000	Balance 1 July 2009 $000	Balance 30 June 2010 $000	Interest charged $000	Highest balance during the year $000
Directors								
L Tutt [1,2]	–	–	–	–	597	–	7	600
C Herbert [1,3]	–	–	12	344	483	–	26	483
Senior Executives								
M Blucher [1,4]	–	–	–	–	547	–	5	552
S McDonald [1,5]	–	–	–	–	923	–	13	930
M Milliner	1,849	1,355	99	1,897	719	1,849	74	2,588
J Smith	900	900	59	900	2,639	900	177	2,639

Notes

1 Interest charged in the above table reflects the amount charged during the period in which individuals were considered key management personnel.

2 Mr Tutt retired on 28 October 2009.

3 Mr Herbert was a director of Suncorp Group Limited for the period from incorporation until 22 December 2010. During this period, the Company was dormant.

4 The contract with Mr Blucher terminated on 31 August 2009.

5 Mr McDonald left office on 21 October 2009.

New loan facilities made to key management personnel and their related parties during the year were $nil (2010: $1,700 thousand).

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Suncorp Group to key management personnel and their related parties, and the number of individuals in each group, are as follows:

	Key management personnel 2011 $000	Other related parties 2011 $000	Key management personnel 2010 $000	Other related parties 2010 $000
Opening balance	2,749	–	5,311	597
Closing balance	2,255	–	2,749	–
Interest charged	170	–	295	7
	Number	Number	Number	Number
Number of individuals at 30 June	2	–	2	–

29. Key management personnel disclosures (continued)

29.3 Movement in shares

Directors and executives of the Company and their related parties received normal distributions on these shares. Details of the directors' shareholdings in the Company at the date of signing these financial reports are set out in the Directors' Report.

The movement during the reporting period in the number of ordinary shares in the Company and Suncorp-Metway Ltd (prior to the Suncorp Group restructure) held, directly, indirectly or beneficially, by each key management personnel, including their related parties, is as follows:

	BALANCE 1 JULY 2010					BALANCE 30 JUNE 2011	
2011	Ordinary shares	Performance rights [1]	Received as compensation [2]	Purchases (sales)	Other changes	Ordinary shares	Performance rights
Directors							
Executive director							
P Snowball	66,123	900,000	–	–	–	66,123	900,000
Director							
C Herbert [3]	–	–	19,823	–	(19,823)	–	–
Non-executive directors							
J Story	138,803	–	–	–	–	138,803	–
I Atlas [4]	–	–	–	–	–	–	–
W Bartlett	19,968	–	–	7,000	–	26,968	–
Dr I Blackburne [5]	36,640	–	–	–	(36,640)	–	–
P Dwyer	20,000	–	–	–	–	20,000	–
S Grimshaw	23,350	–	–	964	–	24,314	–
E Kulk	20,173	–	–	–	–	20,173	–
G Ricketts	22,716	–	–	938	–	23,654	–
Dr Z Switkowski	61,599	–	–	140,000	–	201,599	–
Senior Executives							
R Bell [6]	83,999	196,921	71,585	–	(352,505)	–	–
D Chandran	–	–	–	–	–	–	–
A Day	362	40,478	71,585	15	–	377	112,063
G Dransfield [7]	–	–	–	–	39,078	–	39,078
D Foster	25,542	202,844	77,092	–	–	25,542	279,936
M Milliner	68,026	219,461	82,599	–	–	68,026	302,060
J Nesbitt	–	313,016	88,105	–	–	–	401,121
A Revis [8]	–	–	58,920	5,093	–	5,093	58,920
J Smith	115,962	199,740	82,599	551	–	116,513	282,339
R Stribling	10,000	–	66,079	–	–	10,000	66,079
G Summerhayes	–	134,969	68,832	–	–	–	203,801

Notes

1 The number of performance rights disclosed for executive directors and Senior Executives represents performance rights held by the trustee of the EPSP and therefore Beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles.

2 For executive directors and Senior Executives compensation includes shares held under the EPSP. These shares are recorded in the Company's (2010: Suncorp-Metway Ltd's) share register in the name of the EPSP Trustee and vest only when performance hurdles are met. No shares vested during the 2011 financial year.

3 Mr Herbert was a director of Suncorp Group Limited for the period from incorporation until 22 December 2010. During this period, the Company was dormant. Of the 111,529 shares and performance rights held at the date of appointment, 94,244 performance rights remained subject to performance hurdles. Of the 131,352 shares and performance rights held on leaving office, 114,067 performance rights remain subject to performance hurdles.

4 Appointed 1 January 2011.

5 Left office on 31 August 2010. Shares held upon retirement are shown in 'Other changes'.

6 Left office on 22 May 2011. Shares and performance rights held upon retirement are shown in 'Other changes'. Of the shares and performance rights held on leaving office, 268,506 performance rights remain subject to performance hurdles.

7 Appointed 23 May 2011.

8 Appointed 16 August 2010.

2010	BALANCE 1 JULY 2009 Ordinary shares	Performance rights[1]	Received as compensation[2]	Purchases (sales)	Other changes	BALANCE 30 JUNE 2010 Ordinary shares	Performance rights
Directors							
Executive directors							
C Skilton[7]	96,776	333,164	–	–	(429,940)	–	–
P Snowball[8]	–	–	900,000	66,123	–	66,123	900,000
Non-executive directors							
J Story	134,880	–	–	3,923	–	138,803	–
W Bartlett	19,968	–	–	–	–	19,968	–
Dr I Blackburne	36,640	–	–	–	–	36,640	–
P Dwyer	18,000	–	–	2,000	–	20,000	–
S Grimshaw[4]	–	–	–	23,350	–	23,350	–
Dr C Hirst AO[5]	27,678	–	–	–	(27,678)	–	–
M Kriewaldt[5]	45,043	–	–	366	(45,409)	–	–
E Kulk	20,173	–	–	–	–	20,173	–
G Ricketts	21,764	–	–	952	–	22,716	–
Dr Z Switkowski	61,599	–	–	–	–	61,599	–
L Tutt[6]	60,969	–	–	1,539	(62,508)	–	–
Senior Executives							
S Alomes[11]	–	–	58,989	–	(58,989)	–	–
R Bell	83,999	120,825	76,096	–	–	83,999	196,921
M Blucher[7]	203,978	265,896	–	–	(469,874)	–	–
D Chandran	–	–	–	–	–	–	–
A Day[12]	–	–	17,092	6	23,742	362	40,478
D Foster	25,542	120,895	81,949	–	–	25,542	202,844
A Harmer	–	–	–	–	–	–	–
C Herbert[3]	17,285	47,416	46,828	–	(111,529)	–	–
B Inglis[13]	4,389	231,992	93,657	–	(330,038)	–	–
S McDonald[13]	73,966	158,934	81,949	–	(314,849)	–	–
M Milliner	66,490	137,512	81,949	1,536	–	68,026	219,461
J Nesbitt[9]	–	–	313,016	–	–	–	313,016
J Smith	110,202	111,937	87,803	5,760	–	115,962	199,740
R Stribling[10]	–	–	–	5,144	4,856	10,000	–
G Summerhayes	–	61,800	73,169	–	–	–	134,969

Notes

1 The number of performance rights disclosed for executive directors and Senior Executives represents performance rights held by the trustee of the EPSP and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles.
2 For executive directors and Senior Executives compensation includes shares held under the EPSP. These shares are recorded in Suncorp-Metway Ltd's share register in the name of the EPSP Trustee and vest only when performance hurdles are met. 5,132 shares vested during the 2010 financial year. The remuneration disclosure includes the fair value of the shares amortised over the vesting period.
3 Mr Herbert left office on 30 April 2010 when his secondment to Acting CFO ceased. Shares and performance rights held upon leaving office are shown in 'Other changes'. Of the shares and performance rights held on leaving office, 80,129 performance rights remain subject to performance hurdles.
4 Appointed 27 January 2010.
5 Retired on 16 April 2010. Shares held upon retirement are shown in 'Other changes'.
6 Retired 28 October 2009. Shares held upon retirement are shown in 'Other changes'.
7 Resigned 31 August 2009. Shares and performance rights held upon resignation are shown in 'Other changes'. Of the shares and performance rights held by Mr Skilton on resignation, 189,135 performance rights remain subject to performance hurdles.
8 Appointed 1 September 2009.
9 Appointed 3 May 2010.
10 Appointed 4 January 2010. Shares held on appointment are shown in 'Other changes'.
11 Appointed 23 November 2009, resigned 19 March 2010. The performance rights awarded on appointment were forfeited on resignation and are shown in 'Other changes'.
12 Appointed 21 October 2009. Shares held on appointment are shown in 'Other changes'.
13 Left office on 21 October 2009. Shares and performance rights held upon departure are shown in 'Other changes'. Of the shares and performance rights held by Mr McDonald on leaving office, 81,949 performance rights remain subject to performance hurdles.

29. Key management personnel disclosures (continued)

29.3 Movement in shares (continued)

Movements in the number of Convertible Preference Shares held directly, indirectly or beneficially by each key management personnel, including their related parties, are noted in the table below:

	Balance 1 July 2009	Other changes	Balance 30 June 2010	Balance 30 June 2011
Non-executive directors				
Dr C Hirst AO [1]	100	(100)	–	**–**
Senior Executives				
D Foster [2]	90	–	90	**90**

Notes

1 Retired on 16 April 2010. Shares held upon retirement are shown in 'Other changes'.

2 There were no movements during the 2010 and 2011 financial years.

29.4 Other key management personnel transactions

Financial instrument transactions

Financial instrument transactions (other than loans and shares disclosed within this report) between the Suncorp Group and directors, executives and their related parties during the financial year were in the nature of normal personal banking, investment and deposit transactions. These transactions were on commercial terms and conditions no more favourable than those given to other employees or customers and are trivial or domestic in nature.

Transactions other than financial instrument transactions

No director has entered into a material contract with the Company or the Suncorp Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end. Other transactions with directors, executives and their related parties are conducted on arm's length terms and conditions, and are deemed trivial or domestic in nature. These transactions are in the nature of personal investment, general insurance and life insurance policies.

30. Other related party disclosures

30.1 Identity of related parties

The Suncorp Group has a related party relationship with its associates and joint venture entities (see note 17.2) and its key management personnel (see note 29).

30.2 Related party transactions with associates and joint venture entities

Transactions between the Suncorp Group and associates and joint venture entities consisted of fees received and paid for information technology services, investment management services, overseas management services, property development finance facilities and reinsurance arrangements. All these transactions were on a normal commercial basis.

	CONSOLIDATED	
	2011 $000	2010 $000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:		
Other income received or due and receivable:		
Associates	**995**	1,230
Joint ventures	**9,397**	96,476
Other expenses paid or due and payable		
Associates	**5,268**	6,553
Joint ventures	**5,074**	4,000
Aggregate amounts receivable from, and payable to, each class of related parties at balance date:		
Receivables:		
Associates	**52**	7,529
Joint ventures	**85,030**	83,551
Payables:		
Associates	**8**	–
Joint ventures	**–**	1

31. Commitments

In the ordinary course of business, various types of contracts are entered into relating to the financing needs of customers. Commitments to extend credit, letters of credit, guarantees, warranties and indemnities are classed as financial instruments and attract fees in line with market prices for similar arrangements and reflect the probability of default. They are not sold or traded. They are not recorded in the statement of financial position but are disclosed in the financial statements. The Suncorp Group uses the same credit policies and assessment criteria in making these commitments and conditional obligations as it does for on-balance sheet instruments.

31.1 Credit commitments

Detailed below are the notional amounts of credit commitments together with their credit equivalent amounts determined in accordance with the capital adequacy guidelines set out by APRA:

	CONSOLIDATED	
	2011 $m	2010 $m
Notional amounts		
Guarantees entered into in the normal course of business	**165**	287
Commitments to provide loans and advances	**6,062**	6,046
	6,227	6,333
Credit equivalent amounts		
Guarantees entered into in the normal course of business	**164**	184
Commitments to provide loans and advances	**1,252**	1,457
	1,416	1,641

31.2 Operating lease expenditure commitments

	CONSOLIDATED	
	2011 $m	2010 $m
Aggregate non-cancellable operating lease rental payable but not provided in the financial statements:		
Less than one year	**156**	156
Between one and five years	**404**	359
More than five years	**115**	166
	675	681

The Suncorp Group leases property under operating leases expiring from 1-12 years. Leases generally provide the Suncorp Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria. Some of the leased properties are sub-let by the Suncorp Group. Total future minimum rental receivable under non-cancellable sub-leases not provided in financial statements was $4 million (2010: $2 million).

31. Commitments (continued)

31.3 Operating lease revenue commitments

	CONSOLIDATED 2011 $m	2010 $m
Minimum lease payments receivable under non-cancellable operating leases relating to investment properties:		
Less than one year	**11**	11
Between one and five years	**37**	36
More than five years	**3**	10
	51	57

31.4 Capital and expenditure commitments

	CONSOLIDATED 2011 $m	2010 $m
Expenditure for the acquisition of plant and equipment and other expenditure contracted for but not provided in the financial statements:		
Less than one year	**27**	12
Between one and five years	**74**	–
More than five years	**–**	–
	101	12

32. Contingent assets and liabilities

32.1 Contingent assets

There are claims and possible claims made by the Suncorp Group against external parties, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Suncorp Group does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position. The directors are of the opinion that receivables are not required in respect of these matters, as it is not virtually certain that future economic benefits will eventuate or the amount is not capable of reliable measurement.

32.2 Contingent liabilities

There are outstanding court proceedings, potential fines, claims and possible claims against the Suncorp Group, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Suncorp Group does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

32.2 Contingent liabilities

Contingent liabilities for which no provisions are included in these financial statements are as follows:

- The Suncorp Group has given guarantees and undertakings in the ordinary course of business in respect to credit facilities and rental obligations. Note 31 sets out details of these guarantees.
- Certain subsidiaries act as trustee for various trusts. In this capacity, the subsidiaries are liable for the debts of the trusts and are entitled to be indemnified out of the trust assets for all liabilities incurred on behalf of the trusts.
- In the ordinary course of business the Suncorp Group enters into various types of investment contracts that can give rise to contingent liabilities. It is not expected that any significant liability will arise from these types of transactions as any losses or gains are offset by corresponding gains or losses on the underlying exposures.
- Certain subsidiaries are potentially exposed to the Buyer of Last Resort (BOLR) clauses in certain advisor contracts. For the BOLR to be exercised, the following key conditions should be met by the advisor: (i) must retire from the industry, (ii) must have good compliance histories and reasonable systems and processes relative to business scale to get a full multiple, and (iii) must have tried to sell externally for a period of six months or more. The maximum potential commitments (all BOLR exercised at once) would be $31 million (2010: $44 million).
- Suncorp Mortgage Company NZ Limited (SMCNZ), a subsidiary of the Group, has indemnified the Guardian CashPlus Mortgage Units Fund (GIF 35) for any capital losses on its investment of $14 million (2010: $20 million) in the Guardian Mortgage Fund (GIF 2). As at 30 June 2011, SMCNZ has provided $4 million (2010: $3 million) for losses occurring under this indemnity. This provision was previously made by The New Zealand Guardian Trust Company Limited.

33. Significant accounting policies

The Suncorp Group's significant accounting policies set out below have been consistently applied by all Group entities to all periods presented in these consolidated financial statements except for the following change in accounting policy:

- The Suncorp Group has elected to early adopt AASB 2010–4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* for amendments to AASB 101 *Presentation of Financial Statements* which removed the requirement to show each item of other comprehensive income in the statement of changes in equity and rather permit such analysis and disclosure to be shown in the notes. This change has been retrospectively applied and the comparatives have been represented to reflect this change. As this change only affects presentation, it has no impact on earnings per share.

The Suncorp Group's significant accounting policies are presented as follows:

- Note 33.1 describes the significant accounting policies applicable to all Suncorp Group entities (including Banking)
- Note 33.2 describes the significant accounting policies specifically applicable to General Insurance
- Note 33.3 describes the significant accounting policies specifically applicable to Life; and
- Note 33.4 details the new accounting standards and interpretation not yet adopted.

33.1 Significant accounting policies applicable to all Group entities

The following significant accounting policies are applicable to all Suncorp Group entities.

33.1.1 Basis of consolidation

The Suncorp Group's consolidated financial statements are financial statements of the Company and all its subsidiaries presented as those of a single economic entity. Intra-group transactions and balances are eliminated on consolidation.

(a) Subsidiaries

Subsidiaries are entities controlled by the Suncorp Group which includes companies, managed funds and trusts. Subsidiaries are consolidated from the date that control commences until the date that control ceases. Control is the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

33. Significant accounting policies (continued)

33.1 Significant accounting policies applicable to all Group entities (continued)

33.1.1 Basis of consolidation (continued)

(b) Special purpose entities and securitisation

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The Suncorp Group has established a number of SPEs for trading and investment purposes. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Suncorp Group and the SPE's risks and rewards, the Suncorp Group concludes that it controls the SPE.

Securitisation

The Suncorp Group conducts a loan securitisation program whereby housing mortgage loans are packaged and sold as securities to the Apollo Trusts (Trusts). Securitised loans are recognised in the Suncorp Group's financial statements as the Suncorp Group is entitled to any residual income of the program after all payments due to investors and associated costs of the program have been met.

The Trusts fund their purchase of the loans by issuing floating-rate pass-through debt securities. These are represented as securitisation liabilities of the Suncorp Group. The Suncorp Group does not stand behind the capital value or the performance of the securities or the assets of the Trusts; and it does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the Trusts. The Suncorp Group is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support.

Statutory insurance funds

The Suncorp Group's General Insurance entities are licensed to maintain statutory insurance funds for external clients. The application of the statutory funds by the licensed entities is restricted to the collection of premiums and the payment of claims, related expenses and other payments authorised under the relevant Acts. The licensed entities are not liable for any deficiency in the funds, or entitled to any surplus. For these reasons, the directors are of the opinion that the subsidiaries do not have control nor have the capacity to control the statutory funds. Therefore, the statutory funds are not consolidated into the Suncorp Group's financial statements.

(c) Non-controlling interests and managed funds units on issue

Non-controlling interests and managed funds units on issue are recognised when the Suncorp Group does not hold 100% of the shares or units in a subsidiary. They represent the external equity or liability interests in non-wholly owned subsidiaries of the Suncorp Group. Where shares or units issued are classified as equity in the subsidiary, non-controlling interests are recognised as equity. Where shares or units issued are classified as a liability in the subsidiary (e.g. investment trusts), managed funds units on issue are recognised as a liability.

(d) Associates and joint venture entities (equity accounted investees)

Associates are those entities in which the Suncorp Group has significant influence, but not control, over the financial and operating policies. Joint venture entities are those entities over which the Suncorp Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

These investments are accounted for using the equity method. Interests are initially recognised at cost and adjusted to recognise the Suncorp Group's share of the profit or loss after the date of acquisition. For investments in associates, if the Suncorp Group's share of losses exceeds its investment, the carrying amount is reduced to nil and recognition of further losses is discontinued.

Investments in equity-accounted investees are assessed for impairment each reporting date and are carried at the lower of the equity-accounted amount and recoverable amount.

(e) Jointly controlled assets

Jointly controlled assets are those assets in which the Suncorp Group has joint control. The Suncorp Group's interests are accounted for by including the Suncorp Group's share of the jointly controlled assets (classified according to the nature of the assets rather than as an investment), liabilities and expenses incurred, and income from the sale or use of jointly controlled assets.

(f) Joint venture operations

Joint venture operations are those operations in which the Suncorp Group has joint control. They are brought to account by recognising the assets the Suncorp Group controls, the liabilities that it incurs, the expenses it incurs and its share of income that is earned by the joint venture operations.

33.1.2 Business combinations

The acquisition method of accounting is used to account for business combinations by the Suncorp Group.

The cost of an acquisition is measured as the fair value of the assets transferred, liabilities incurred, and equity instruments issued by the Suncorp Group at the acquisition date. Acquisition-related costs are expensed in the period in which they are incurred. Where equity instruments are issued in an acquisition, their value is the published market price at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The acquiree's identifiable assets acquired, liabilities assumed, contingent liabilities, and any non-controlling interests are measured at their fair values at the acquisition date. If the consideration transferred and any non-controlling interest in the acquiree is greater than the fair value of the net amounts of the identifiable assets acquired and liabilities assumed, the excess is recorded as goodwill; otherwise, the difference is recognised immediately in profit or loss after a reassessment of the identification and measurement of the net assets acquired.

(a) Business combination of entities under common control

In a business combination arising from transfers of interests in entities that are under the control of the ultimate parent entity, the assets and liabilities are acquired at the carrying amounts recognised previously in the Suncorp Group's consolidated financial statements.

33.1.3 Foreign currency

(a) Foreign currency transactions

Transactions denominated in foreign currencies are translated into the functional currency of the operation using the spot exchange rates at the date of the transaction. Foreign currency monetary assets and liabilities at balance date are translated into the functional currency using the spot rates of exchange current on that date. The resulting differences on monetary items are recognised as exchange gains or losses in the financial year in which the exchange rates difference arises. Foreign currency non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rates at the date of the transaction. Foreign currency non-monetary assets and liabilities that are stated at fair value are translated using exchange rates at the dates the fair value was determined. Where a non-monetary asset is classified as an available-for-sale financial asset, the gain or loss is recognised in other comprehensive income.

Where a foreign currency transaction is part of a hedge relationship, it is accounted for as above, subject to the hedge accounting rules set out in note 33.1.12.

(b) Financial reports of foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised in other comprehensive income and presented in the foreign currency translation reserve.

33.1.4 Revenue and expense recognition

(a) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method.

(b) Dividends and distribution income

Dividends and distribution income are recognised when the right to receive income is established.

(c) Fair value gains and losses

Fair value gains and losses from financial assets and liabilities at fair value through profit and loss are recognised as they occur.

(d) Fees and commissions

Fees and commission income and expense (e.g. lending fees) that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Banking non-yield related application and activation lending fee revenue is recognised when the loan is disbursed or the commitment to lend expires.

Service fees that represent the recoupment of the costs of providing service, for example maintaining and administering existing facilities, insurance portfolio fund management services income, and asset management services, are recognised on an accrual basis when the service is provided.

33.1.5 Share-based payments

The Suncorp Group operates several share-based payment transactions with its non-executive directors and employees which may be equity settled or equity settled with cash alternative (Company's choice).

For equity-settled transactions, the fair value is recognised as an expense on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value is calculated as the fair value of each share granted multiplied by the expected number of shares to eventually vest. The fair value of each share granted is measured on grant date and does not change throughout the vesting period unless the terms and conditions of the grant are modified. The fair value of the share-based payments is based on the market price of the shares, dividend entitlements, and market vesting conditions (e.g. performance criteria) upon which the shares were granted. Non-market vesting conditions (e.g. service conditions) are taken into account by adjusting the number of shares which will eventually vest and are not taken into account in the determination of the grant date fair value. On a cumulative basis, no expense is recognised for shares granted that do not vest due to a non-market vesting condition not being satisfied.

33. Significant accounting policies (continued)

33.1 Significant accounting policies applicable to all Group entities (continued)

33.1.5 Share-based payments (continued)

Cash-settled transactions are recognised as a liability at fair value. Until the liability is settled, the fair value of the liability is remeasured at each reporting date, and at the date of settlement, with the changes in fair value recognised in profit or loss for the period.

Equity-settled transactions with cash alternative (Company's choice) are accounted for as a cash-settled share-based payment transaction to the extent that the Company has a present obligation to settle in cash. Otherwise, the transaction is accounted for as an equity-settled arrangement.

33.1.6 Income tax

Income tax expense comprises current and deferred tax and is recognised in the profit or loss except to the extent it relates to items recognised in equity or in other comprehensive income.

Current tax consists of the expected tax payable on the taxable income for the year, after any adjustments in respect of previous years, using tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. The tax effect of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

For presentation purposes, deferred tax assets and deferred tax liabilities have been offset if there is a legally enforceable right to offset current tax assets and liabilities and where they relate to income taxes levied by the same taxation authority on the same taxable entity or entities within the Suncorp Group.

AASB 1038 *Life Insurance Contracts* requires shareholder and policyowner tax to be included in income tax expense in the profit or loss. The majority of life insurance tax is allocated to policy liabilities and does not affect profit attributable to owners of the Company.

Tax consolidation

The Company (2010: Suncorp-Metway Ltd) is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries. As a consequence, all members of the tax-consolidated group are taxed as a single entity.

33.1.7 Goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST, except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or the amount of expense.

Receivables, payables and the provision for outstanding claims are stated with the amount of GST included.

33.1.8 Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at branches, cash on deposit, balances with the Reserve Bank of Australia (RBA), highly liquid short-term investments and money at short call. Receivables due from other banks are classified as cash equivalents for cash flow purposes. They are measured at face value or the gross value of the outstanding balance which is considered a reasonable approximation of fair value. Bank overdrafts are shown within financial liabilities unless there is a right of offset.

33.1.9 Receivables due from and payables due to other banks

Receivable due from and payables due to other banks include nostro balances and settlement account balances. They are carried at the gross value of the outstanding balance.

33.1.10 Non-derivative financial assets

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are classified as either held for trading or are designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Suncorp Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Suncorp Group's documented risk management or investment strategy. They are initially recognised on the trade date at which the Suncorp Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Transaction costs are recognised in the profit or loss as incurred. The assets are measured at fair value each reporting date based on the quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used. Movements in the fair value are taken immediately to the profit or loss. The Suncorp Group's financial assets at fair value through profit or loss include trading securities and investment securities.

(b) Loans and other receivables

Loans and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These include all forms of lending and direct finance provided to Banking customers. They are initially recognised on the date that they originated. For Banking loans, this would be when cash is advanced to customers. They are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

(c) Available-for-sale financial assets

Available-for-sale financial assets consist of debt and equity securities which are intended to be held for an indefinite period of time, but which may be sold in response to a need for liquidity or changes in interest rates or exchange rates. They are initially recognised on trade date at fair value plus any directly attributable transaction costs and are measured at fair value at each reporting date. Fair value gains and losses, other than foreign exchange gains and losses on debt securities, are recognised directly in other comprehensive income until impaired or derecognised, whereupon the cumulative gains and losses previously recognised in other comprehensive income are transferred to profit or loss. Foreign exchange gains and losses on debt securities are recognised in profit or loss. The Suncorp Group's available-for-sale financial assets include investment securities.

(d) Derecognition of financial assets

Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Suncorp Group has transferred substantially all risk and rewards of ownership.

(e) Repurchase agreements

When the Suncorp Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date (repurchase agreement), the financial assets sold under such agreement continue to be recognised as a financial asset and the obligation to repurchase recognised as a liability.

33.1.11 Derivative financial instruments

The Suncorp Group holds derivative financial instruments to hedge the Suncorp Group's assets and liabilities or as part of the Suncorp Group's trading and investment activities. Derivatives include foreign exchange contracts, forward rate agreements and interest rate, currency and equity futures.

All derivatives are initially recognised at fair value on trade date and transaction costs are recognised in profit or loss as incurred. Fair values are determined from quoted market prices where available; where quoted market prices are not available, discounted cash flow models, broker and dealer price quotations or option pricing models are used as appropriate. Derivatives are classified and accounted for as held for trading financial assets at fair value through profit or loss (note 33.1.10 (a)) unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting (note 33.1.12).

Embedded derivatives

Where a derivative is embedded in another financial instrument, the economic characteristics and risks of the derivative are not closely related to those of the host contract and the host contract is not carried at fair value, the embedded derivative is separated from the host contract and carried at fair value through profit or loss. Otherwise, the embedded derivative is accounted for on the same basis as the host contract.

33.1.12 Hedge accounting

The Suncorp Group applies hedge accounting to offset the effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. On entering into a hedging relationship, the Suncorp Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Suncorp Group will assess the hedging instrument's effectiveness. On an ongoing basis, hedges are assessed for whether they are highly effective in achieving offsetting changes in fair values or cash flows of hedged items. A hedge is considered highly effective when the actual results of the hedge are within a range of 80–125 percent.

(a) Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability of cash flows that:

- is attributable to a particular risk associated with a recognised asset or liability (such as future interest payments on variable rate debt) or a highly probable forecast transaction; and
- could affect profit or loss.

Changes in the fair value associated with the effective portion of a hedging instrument designated as a cash flow hedge are recognised in the hedging reserve within equity as the lesser of the cumulative fair value gain or loss on the hedging instrument and the cumulative change in fair value on the hedged item from the inception of the hedge. Ineffective portions are immediately recognised in the profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the hedge relationship is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the amounts accumulated in equity are released to profit or loss immediately. In other cases the cumulative gain or loss previously recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

33. Significant accounting policies (continued)

33.1 Significant accounting policies applicable to all Group entities (continued)

33.1.12 Hedge accounting (continued)

(b) Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of:

- a recognised asset or liability
- an unrecognised firm commitment; or
- an identified portion of such an asset, liability or firm commitment,

that is attributable to a particular risk and could affect profit and loss.

Where an effective hedge relationship is established, fair value gains or losses on the hedging instrument are recognised in profit or loss. The hedged item attributable to the hedged risk is carried at fair value with the gain or loss recognised in profit or loss.

When a hedge relationship no longer meets the criteria for hedge accounting, the hedged item is accounted for under the effective interest method from that point and any accumulated adjustment to the carrying value of the hedged item from when it was effective is released to profit or loss over the period to when the hedged item will mature.

33.1.13 Assets and liabilities classified as held for sale

These are non-current assets and liabilities that are expected to be recovered primarily through sale rather than continuing use. Once classified, the assets and liabilities are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification and subsequent gains or losses on re-measurement are recognised in the profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

33.1.14 Property, plant and equipment

(a) Recognition and initial measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition.

Property, plant and equipment are derecognised upon disposal or where no future economic benefits are expected from its use. The resulting gain or loss is recognised and calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds.

(b) Depreciation

The depreciable value of the asset, which is the cost of an asset less any residual value, is depreciated over the asset's useful life. The straight-line method of depreciation is used with assets being depreciated from the date they become available for use.

Useful lives and depreciation methods are reviewed at each annual reporting period. Residual values, if significant, are reassessed annually. The depreciation rates used for the current and comparative periods are as follows:

CLASS	BUILDINGS	LEASEHOLD IMPROVEMENTS	PLANT AND EQUIPMENT
Depreciation rate	2.5%	10% to 20%	10% to 50%

33.1.15 Intangible assets

(a) Initial recognition and measurement

Intangible assets are recognised at cost less any accumulated amortisation and any accumulated impairment losses. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at acquisition date.

Goodwill is recognised at cost from business combinations as described in note 33.1.2 and is subsequently measured at cost less accumulated impairment loss. Goodwill on equity accounted investments is included in the carrying value of the investment.

Internally generated intangible assets

Internally generated intangible assets such as software are recorded at cost, which comprises all directly attributable costs necessary to purchase, create, produce, and prepare the asset to be capable of operating in the manner intended by management.

All other expenditure, including expenditure on software maintenance, research costs and brands is recognised as an expense as incurred.

(b) Amortisation

Amortisation is recognised in a manner that reflects the pattern in which the asset's future economic benefits are expected to be consumed over the estimated useful lives of finite intangible assets, from the date the assets are available for use. The amortisation method and useful lives are reviewed annually. The estimated useful lives of intangible assets are as follows:

CATEGORY	BRANDS	CUSTOMER CONTRACTS & OTHER RELATIONSHIPS	OUTSTANDING CLAIMS LIABILITIES INTANGIBLE	SOFTWARE
Useful life	1-50 years	1-30 years	20 years	3–7 years

Intangible assets deemed to have an indefinite useful life are not amortised but are tested for impairment at least annually.

33.1.16 Impairment

(a) Financial assets

Financial assets, other than those measured at fair value through profit and loss, are assessed each reporting date to determine whether there is any objective evidence of impairment. If impairment has occurred, the carrying amount of the asset is written down to its estimated recoverable amount.

Loans and receivables

An impairment loss is recognised in respect of financial assets measured at amortised cost when the carrying amount of the asset exceeds the present value of its estimated discounted future cash flows calculated based on the asset's original effective interest rate. When impairment losses are recognised, the carrying amount of the relevant asset or group of assets is reduced by the balance of the provision for impairment. If a subsequent event causes the amount of the impairment loss to decrease, the impairment loss is reversed through profit or loss.

The amount necessary to bring the impairment provisions to their assessed levels, after write-offs, is charged to profit or loss. All known bad debts are written off in the period in which they are identified. Where not previously provided for, they are written off directly to profit or loss.

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income.

In relation to provision for impairment of Banking loans and advances, two categories of provisions are recognised: specific provisions and collective provisions. Specific impairment provisions are recognised for all loans where there is objective evidence that an individual loan is impaired. Specific impairment provisions are based on the carrying amount of the loan and the present value of expected future cash flows. Where loans are not assessed as individually impaired, they are classified into groups of loans with similar credit risk characteristics and collectively assessed for impairment. Collective impairment provisions are based on historical loss experience adjusted, where appropriate, for current observable data.

The difference between the Suncorp Group's specific and collective provisions for impairment and the estimate of credit losses across the credit cycle based on guidance provided by APRA is recognised in the general reserve for credit losses.

Available-for-sale financial assets

An impairment loss is recognised in respect of available-for-sale financial assets where there is evidence of a decrease in fair value below cost. Cumulative losses are transferred from the available-for-sale reserve in equity to the profit or loss. When subsequent events cause the amount of the impairment loss to decrease, a reversal of the impairment is recognised in profit or loss for debt securities and in equity for equity securities.

(b) Non-financial assets

Non-financial assets are assessed for indicators of impairment at each reporting date. Indicators include both internal and external factors. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) – this may be an individual asset or a group of assets. For the purpose of assessing impairment of goodwill, goodwill is allocated to cash-generating units representing the Suncorp Group's investment in each of its business lines, which are its operating segments.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in profit or loss. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Impairment losses, if any, recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss recognised for goodwill is not reversed. An impairment loss for an asset other than goodwill is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

33.1.17 Non-derivative financial liabilities

(a) Financial liabilities at fair value through profit or loss

These liabilities are classified as either held for trading or those that are designated upon initial recognition. Liabilities are initially recognised on trade date at fair value with any directly attributable transaction costs recognised in profit or loss as incurred. Fair value is determined using the offer price where available. Movements in the fair value are recognised in the profit or loss. The Suncorp Group designates certain short-term offshore borrowings as being at fair value through profit or loss when they are managed on a fair value basis.

33. Significant accounting policies (continued)

33.1 Significant accounting policies applicable to all Group entities (continued)

33.1.17 Non-derivative financial liabilities (continued)

(b) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are initially measured at fair value plus any directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. The Suncorp Group's financial liabilities at amortised cost includes payables due to other financial institutions and deposits and short-term borrowings, debt issues, subordinated notes and preference shares.

(c) Derecognition of financial liabilities

Non-derivative financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.

(d) Preference shares

Reset Preference Shares (RPS) and Convertible Preference Shares (CPS) are recognised as financial liabilities at amortised cost. The capital is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. Dividends are charged as an interest expense as accrued.

RPS are exchangeable on specific dates at the option of the holder. Once an exchange request is received, the Suncorp Group can elect to exchange the RPS to cash or a variable number of Suncorp-Metway Ltd ordinary shares, exhibiting characteristics of a financial liability.

CPS are convertible to a variable number of the Company's ordinary shares on mandatory conversion dates and hence exhibit characteristics of a financial liability.

Further details on the RPS and CPS can be found in note 7.10.

33.1.18 Compound instruments

The component parts of compound instruments issued by the Suncorp Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a financial liability at amortised cost until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the instruments on their relative carrying amounts at the date of issue.

33.1.19 Leases

A distinction is made between finance leases (which effectively transfer substantially all the risks and benefits incidental to ownership of leased non-current assets from the lessor to the lessee) and operating leases under which the lessor effectively retains substantially all such risks and benefits.

(a) Finance leases

Finance leases, where the Suncorp Group is the lessor, are recognised as loans and other receivables on the commencement of the lease, and measured at the net investment in the lease, being the present value of the minimum lease payments receivable and any unguaranteed residual value, plus any initial direct costs.

The revenue attributable to finance leases is brought to account in profit or loss based on a constant periodic rate of return on the Suncorp Group's net investment in the finance lease.

(b) Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased asset.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Surplus leased premises

A provision is recognised for surplus leased premises where it is determined that no material benefit will be obtained by the Suncorp Group from its occupancy. This arises where premises are leased under non-cancellable operating leases and the Suncorp Group either:

– currently does not occupy the premises and does not expect to occupy them in the future
– sublets the premises for lower rentals than it is presently obliged to pay under the original lease; or
– currently occupies the premises which have been assessed to be of no material benefit beyond a known future date.

The provision is calculated on the basis of net future cash outflows.

33.1.20 Employee entitlements

(a) Superannuation

The Suncorp Group contributes to both defined contribution and defined benefit superannuation schemes. Contributions made to defined contribution plans are charged to the profit or loss as the obligation to pay is incurred. The defined contribution plans receive fixed contributions and the Suncorp Group's legal or constructive obligation is limited to these contributions.

A defined benefit liability is recognised in the consolidated statement of financial position as a net total of the present value of the defined benefit obligation at the balance date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

If the defined benefit liability resulted in negative balance, a defined benefit asset is recognised as the lower of the negative defined benefit liability and the total of cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recognised directly to equity. Past service costs are recognised immediately in profit or loss.

(b) Short-term employee benefits

Liabilities for employee benefits are those expected to be paid within 12 months of providing service and are measured at their nominal amounts using pay rates expected to be effective when the liability is to be paid. Related on-costs such as workers' compensation and payroll tax are also included in the liability.

A liability is recognised for short-term bonus plans when there is a constructive obligation to pay this amount and the amount can be reliably estimated.

(c) Long service leave

A liability for long service leave is recognised as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using Commonwealth Government bond rates with terms to maturity that match, as closely as possible, the estimated future cash outflows. Related on-costs such as workers' compensation and payroll tax are also included in the liability.

(d) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts a voluntary redundancy in exchange for these benefits. The Suncorp Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

33.1.21 Share capital

(a) Repurchase of share capital

When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

(b) Treasury shares

Ordinary shares of the Company that are acquired by subsidiaries including share-based remuneration trusts and controlled unit trusts are referred to as treasury shares. They are deducted from consolidated equity at the amount of the consideration paid. No gain or loss on treasury shares is recognised.

(c) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. Transaction costs in excess of the proceeds of the equity instruments issued, or where no proceeds are raised, are recognised as an expense.

33.1.22 Contingent liabilities and contingent assets

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

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

The amount disclosed as a contingent liability or contingent asset is the best estimate of the settlement or inflow.

33.2 Significant accounting policies specifically applicable to General Insurance

33.2.1 General Insurance revenue and expense recognition

(a) Premium revenue

Premium revenue comprises amounts charged to policyowners and includes applicable levies and charges such as fire service levies but excludes stamp duty and taxes collected on behalf of third parties such as GST.

Premiums are recognised as revenue in accordance with the pattern of the underlying risk exposure from the date of attachment over the period of the insurance policy, which is usually one year.

Premiums on unclosed business are brought to account by reference to the prior year's experience and information that has become available between the reporting date and the date of completing the financial report.

33. Significant accounting policies (continued)

33.2 Significant accounting policies specifically applicable to General Insurance (continued)

33.2.1 General Insurance revenue and expense recognition (continued)

(b) Managed funds income

The Suncorp Group manages statutory insurance funds for external clients and earns income from the provision of services such as premium collection and claims processing (base fee) as well as an incentive fee based on performance results. Income for the base fee is recognised as the service is provided and for the incentive fee, as the income is earned.

Fees receivable are based on management's best estimate of the likely fee at balance date. There is a significant amount of judgement involved in the estimation process of the fees receivable which may not be finalised for a number of years.

The statutory authorities allocate the base fee to each authorised agent based on factors such as market share and service capability. The performance fee is allocated to each authorised agent based on performance components set by each statutory authority.

(c) Claims expense

Claims expense represents payments for claims and the movement in outstanding claims liabilities. Claims represent the benefits paid or payable to the policyowner on the occurrence of an event giving rise to a loss or accident according to the terms of the policy. Claims expenses are recognised in profit or loss as losses are incurred, which is usually the point in time when the event giving rise to the claim occurs.

(d) Outwards reinsurance expense

Premiums ceded to reinsurers are recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

33.2.2 Financial assets backing General Insurance liabilities

The Suncorp Group has designated financial assets held in portfolios that match the average duration of a corresponding insurance liability as assets backing General Insurance liabilities. These financial assets are designated as fair value through profit or loss as they are managed and their performance is evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy. These financial assets include investment securities and receivables from policyowners, intermediaries and reinsurers; and investment settlement receivables.

Receivables are valued at fair value which is approximated by taking the initially recognised amount and reducing it for credit risk and time value of money as appropriate. Short duration receivables with no stated interest rate are normally measured at the original invoice amount which approximates fair value.

33.2.3 Financial assets not backing General Insurance liabilities

Financial assets that do not back General Insurance liabilities include investment securities and receivables. Investment securities have been designated as fair value through profit or loss as they are managed and their performance evaluated on a fair value basis.

33.2.4 Reinsurance and other recoveries receivables

Reinsurance and other recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

33.2.5 Deferred insurance assets

(a) Deferred acquisition costs

Acquisition costs are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in profit or loss in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

Deferred acquisition costs are recognised as assets to the extent that the related unearned premiums exceed the sum of the deferred acquisition costs and the present value of both future expected claims and settlement costs, including an appropriate risk margin. Where there is a shortfall, the deferred acquisition cost asset is written down and if insufficient, an unexpired risk liability is recognised.

(b) Deferred reinsurance premiums

Reinsurance premiums are deferred and recognised as an asset where there are future economic benefits to be received from reinsurance premiums. The amortisation of deferred reinsurance premiums is in accordance with the pattern of reinsurance service received.

33.2.6 Unearned premium liability

Premium revenue received and receivable but not earned is recognised as an unearned premium liability.

The carrying value of the unearned premium liability is assessed at each reporting date by carrying out a liability adequacy test (LAT). This test assesses whether the net unearned premium liability less any deferred acquisition costs is sufficient to cover future claims costs for in-force insurance contracts. Future claims costs are calculated as the present value of the expected cash flows relating to future claims, and include a risk margin to reflect the inherent uncertainty in the central estimate. The assessment is carried out on a portfolio of contracts basis. If a LAT deficiency occurs, it is recognised in the profit or loss with a corresponding write down of related deferred acquisition costs. Any remaining balance would be recognised as an unexpired risk liability on the statement of financial position.

The LAT test is based on prospective information and so is heavily dependent on assumptions and judgements which are explained in note 6.6.2.

33.2.7 Outstanding claims liabilities

The liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty of the central estimate. Standard actuarial methods are applied to determine the net central estimate of outstanding claims liabilities. Outstanding claims liability is heavily dependent on assumptions and judgements. The details of actuarial assumptions and the process for determining the risk margins are set out in note 6.6.2.

33.3 Significant accounting policies specifically applicable to Life

Under the *Life Insurance Act 1995 (Life Act)*, Life business is conducted within one or more separate statutory funds, which are distinguished from each other and from the shareholder funds. The financial reports of the Australian life insurers prepared in accordance with AASB 1038 *Life Insurance Contracts* (and which are lodged with the relevant Australian regulators) show all major components of the financial statements disaggregated between the various life insurance statutory funds and their shareholder funds, as well as between investment-linked business and those relating to non-investment linked businesses.

The assets of the Life business are allocated between the policyowner and shareholder funds with all assets, liabilities, revenues and expenses recognised in the consolidated financial statements, irrespective of whether they are policyowner or shareholder owned.

The shareholder's entitlement to monies held in the statutory funds is subject to the distribution and transfer restrictions and other requirements of the *Life Act* and the relevant company's constitution. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions.

Participating policyowners can receive a distribution when solvency requirements are met, while shareholders can only receive a distribution when the higher level of capital adequacy requirements are met (refer note 8.8). Participating policyowners and shareholders in Asteron Life Ltd (New Zealand) can only receive a distribution when the prudential reserving requirement is met.

33.3.1 Life revenue and expense recognition

(a) Premium revenue

Premium recorded as revenue relates to risk-bearing life insurance contracts. The components of premium that relate to life investment contracts are in the nature of deposits and are recognised as a movement in policy liabilities.

Life insurance premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised on an accruals basis.

(b) Fees and other revenue

Fee revenue is recognised as services are provided. The entry fee in relation to life investment contracts is deferred and recognised over the average expected life of the investment contract. The revenue that can be attributed to the origination service is recognised at inception.

(c) Claims expense

Insurance claims are recognised when the liability to the policyowner under the policy contract has been established or upon notification of the insured event, depending on the type of claim.

The component of a life insurance contract claim that relates to the bearing of risks is treated as a claim expense. Other life insurance claim amounts and all life investment contract amounts paid to policyowners are in the nature of withdrawals and are recognised as a decrease in policy liabilities.

(d) Outwards reinsurance expense

Premium ceded to reinsurers is recognised by the Suncorp Group as outwards reinsurance premium expense in profit or loss from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. A portion of outwards reinsurance premium is recognised as a deferred reinsurance asset and presented as deferred insurance assets on the statement of financial position at reporting date.

(e) Basis of expense apportionment

Life insurance expenditure has been apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Act*. The expense apportionment basis is in line with the principles set out in LPS 1.04 *Valuation of Policy Liabilities* and New Zealand Society of Actuaries Professional Standard Number 3 *Determination of Life Insurance Policy Liabilities*.

Expenses excluding investment management fees, which are directly identifiable, have been apportioned between policy acquisition and policy maintenance on the basis of the objective when incurring each expense, and the outcome achieved. Where allocation is not feasible between the disclosure categories, expenses have been allocated as maintenance expenses. Expenses which are directly attributable to an individual policy or product are allocated directly to the statutory fund within which the class of business to which that policy or product belongs. All indirect expenses charged to profit or loss are equitably apportioned to each class of business.

33. Significant accounting policies (continued)

33.3 Significant accounting policies specifically applicable to Life (continued)

33.3.1 Life revenue and expense recognition (continued)

(e) Basis of expense apportionment (continued)

Statistics such as policy counts, annual premiums, funds under management and claims payments are used to apportion the expenses to individual life insurance and life investment products.

33.3.2 Financial assets backing life insurance and life investment liabilities

The Suncorp Group has determined that all financial assets within its statutory funds are assets backing policy liabilities. These financial assets are designated as fair value through profit or loss as they are measured on a basis that is consistent with the measurement of the liabilities. These financial assets include investment securities and receivables.

33.3.3 Financial assets not backing life insurance and life investment liabilities

Financial assets held within the shareholder funds do not back life insurance liabilities or life investment liabilities and include investment securities and receivables. Investment securities are designated as fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy. Receivables are measured at amortised cost less accumulated impairment losses.

33.3.4 Deferred acquisition costs

Life insurance contracts – deferred acquisition costs include the fixed and variable costs of acquiring new business and include commissions, certain advertising and underwriting costs. These costs are implicitly deferred through Margin on Service accounting. The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative.

Life investment contracts – deferred acquisition costs include the variable costs of acquiring new business and include commission costs. They are amortised in accordance with the expected earning pattern of the associated revenue.

All other acquisition costs are expensed as incurred.

33.3.5 Policy liabilities

(a) Life insurance contracts

Life insurance contract liabilities are calculated using the Margin on Services (MoS) methodology. Under MoS, the excess of premium received over expected claims and expenses is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyowner.

The projection method is generally used to determine life insurance contract liabilities. The net present value of projected cash flows is calculated using best estimate assumptions about the future. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets. Otherwise, a risk-free discount rate is used.

An accumulation method has been used for some Suncorp Group risk business, where the liability is based on an unearned premium reserve, less an explicit allowance for deferred acquisition costs, and a reserve for incurred but not reported claims.

Participating policies are entitled to share in the profits that arise from participating business. This profit sharing is governed by the *Life Act* and the Life companies' constitutions. The participating policyowner profit sharing entitlement is treated as an expense in the profit or loss.

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyowners by applying the MoS principles in accordance with the *Life Act* and the New Zealand Society of Actuaries Professional Standard Number 3 *Determination of Life Insurance Policy Liabilities*.

Profit allocated to participating policyowners is recognised as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyowners (i.e. unvested) and that which has been allocated to specific policyowners by way of bonus distributions (i.e. vested) are included within life insurance contract liabilities.

(b) Life investment contracts

A life investment contract involves both the origination of a financial instrument and the provision of investment management services. Policy liabilities are measured at the fair value of the financial instrument component of the contract (designated as fair value through profit or loss) plus the liability in respect of the management services element. The management services element, including associated acquisition costs, is recognised as revenue as services are performed.

For investment-linked products, the life investment contract liability is directly linked to the performance and value of the assets that back them and is determined as the fair value of those assets after tax. For fixed income policies, the liability is determined as the net present value of expected cash flows, subject to a minimum of current surrender value.

(c) Liability adequacy test

The adequacy of the life insurance liabilities is evaluated each year. The liability adequacy test considers current estimates of all contractual and related cash flows. If it is determined, using best estimate assumptions, that a shortfall exists, the shortfall is immediately recognised in the profit or loss.

33.4 New accounting standards and interpretations not yet adopted

The following standard, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Suncorp Group in this financial report:

- AASB 9 *Financial Instruments* was issued and will eventually replace AASB 139 *Financial Instruments: Recognition and Measurements*. It introduced changes in the classification and measurement of financial assets and financial liabilities. This standard becomes mandatory for the Suncorp Group's 30 June 2014 financial statements. The Suncorp Group has not yet determined the potential effect of the new standard.
- IFRS 10 *Consolidated Financial Statements*, when it becomes mandatory for the Suncorp Group's 30 June 2014 financial statements, will supersede AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purposes Entities*. It introduces a new single control model to assess whether to consolidate an investee. The Suncorp Group has not yet determined the potential effect of the new standard.
- IFRS 13 *Fair Value Measurement* provides a definition of the term, fair value, and introduces additional disclosure requirements. This is applicable for all assets and liabilities measured at fair value, including non-financial assets and liabilities. This standard becomes mandatory for the Suncorp Group's 30 June 2014 financial statements. The Suncorp Group has not yet determined the potential effect of the new standard.
- AASB 119 *Employee Benefits* is amended for changes in accounting and disclosures on defined benefit superannuation plans; definitions of short-term and other long-term employee benefits affecting the measurement of the obligations; and the timing for recognition of termination benefits. The amendments become mandatory for the Suncorp Group's 30 June 2014 financial statements with specific transitional requirements. The potential effects on adoption of the amendments are yet to be determined.

34. Group risk management

34.1 Group risk management objectives and structure

The Board and management recognise that effective risk management is considered to be critical to the achievement of the Suncorp Group's objectives. The Board Risk Committee has delegated authority from the Board to oversee the adequacy and effectiveness of the risk management frameworks and processes within the Suncorp Group.

An Enterprise Risk Management Framework (ERMF) is in place for the Suncorp Group. It is subject to an annual review, updated for material changes as they occur and is approved by the Board Risk Committee. The ERMF comprises:

- the Suncorp Group's risk appetite framework and its link to strategic business and capital plans
- accountabilities and governance arrangements for the management of risk within the Three Lines of Defence model
- the Suncorp Group's Policy and Compliance Frameworks; and
- the risk management process.

34. Group risk management (continued)

34.1 Group risk management objectives and structure (continued)

The Three Lines of Defence model of accountability involves:

LINE OF DEFENCE	RESPONSIBILITY OF	ACCOUNTABLE FOR
First – Manage risk and comply with Suncorp Group frameworks, policies and risk appetite	All Business Areas (and staff)	– Identifying and managing the risks inherent in their operations – Ensuring compliance with all legal and regulatory requirements and Suncorp Group policies; and – Promptly escalating any significant actual and emerging risks for management attention.
Second – Independent functions own and monitor the application of risk frameworks, and measure and report on risk performance and compliance	All Risk functions (Suncorp Group and Line of Business)	– Design, implement and manage the ongoing maintenance of Suncorp Group risk frameworks and related policies – Advise and partner with the business in design and execution of risk frameworks and practices; develop, apply and execute Line of Business risk frameworks that are consistent with Suncorp Group for the respective business areas; and – Facilitate the reporting of the appropriateness and quality of risk management.
Third – Independent assurance over internal controls and risk management practices	Board Audit Committee, internal and external auditors	– Decides the level and extent of independent testing required to verify the efficacy of internal controls – Validates the overall risk framework; and – Provides assurance that the risk management practices are functioning as intended.

The Board has delegated authorities and limits to the Group Chief Executive Officer (Group CEO) to manage the business. Management recommends to the Board, and the Board has approved, various frameworks, policies and limits relating to key categories of risk faced by the Suncorp Group within the Group CEO authorities and limits.

The Senior Leadership Team, comprising the Group CEO, Line of Business CEOs and all Senior Executives, provides executive oversight and direction-setting across the Suncorp Group, taking risk considerations into account. The Group Chief Risk Officer, a member of the Senior Leadership Team, is charged with the overall accountability for the Risk Management Framework and overall risk management capability.

The Suncorp Group has in place a number of Management Committees, each with its own charter, to execute specified responsibilities in the risk framework. The Suncorp Group and each operating division (excluding Vero New Zealand) has an Asset and Liability Committee to provide effective governance over aspects of the risk framework designed to optimise the long-term returns achieved by asset portfolios within the risk appetite or parameters established by the Board.

Operating divisions, subject to APRA regulation, prepare Risk Management Strategies (RMS) approved by the Board and submit to APRA annually. The RMS describe the strategy adopted by the Board and management for managing risk within APRA-regulated entities, including risk appetite, policies, procedures, management responsibilities and controls.

The key risks addressed by the ERMF are defined below.

KEY RISKS	DEFINITION
Counterparty risk (Credit risk)	The risk that a counterparty will not meet its obligations in accordance with agreed terms.
Liquidity risk	The risk that the Suncorp Group will be unable to service its cash flow obligations today or in the future.
Market risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities.
Asset and liability risk	The risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term.
Insurance risk	The risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, concentration risk, reserving, claims management and/or reinsurance management.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Suncorp Group may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards.
Strategic risk	The risk of loss arising from uncertainty about the future operating environment, including reputation, industry, economic and regulatory environment, branding, crisis management, and partners and suppliers.

The Suncorp Group is exposed to mainly the following categories of market risks:

CATEGORIES OF MARKET RISK	DEFINITION
Foreign exchange (FX) risk	The risk of an asset or liability's value changing unfavourably due to changes in currency exchange rates.
Interest rate risk	The risk of loss of current and future earnings and unfavourable movements in the value of interest-bearing assets and liabilities from changes in interest rates.
Equity risk	The risk of loss in current and future earnings and unfavourable movement in the value of investment in equity instruments from adverse movements in equity prices.
Credit spread risk	Credit spread is the difference in yield due to difference in credit quality. This is the risk of loss in current and future earnings and unfavourable movement in the value of investments from changes in the credit spread as determined by capital market sentiment or factors affecting all issuers in the market and not necessarily due to factors specific to an individual issuer.

Further discussions on the application of Suncorp Group's risk management practices are presented in the following sections:

– Note 34.2 Suncorp Group insurance risk management
– Notes 34.3 to 34.6 Risk management for financial instruments: credit, liquidity and market risks applied by each of the Suncorp Group's business areas; and
– Note 34.7 Derivative financial instruments and hedging.

34. Group risk management (continued)

34.2 Group insurance risk management

34.2.1 Policies for mitigating insurance risk

The risk management activities include prudent underwriting, pricing, acceptance and management of risk, together with claims management and reserving.

The key policies in place to mitigate insurance risk include the following:

- the setting and adherence to underwriting guidelines that determine policies and procedures for acceptance of risk
- the setting of formal claims acceptance limits and the regular review and updating of claims experience data
- the reduction in the concentration of insurance risk through diversification
- the Suncorp Group enters into reinsurance and ceding arrangements to preserve capital and manage earnings volatility from large individual or catastrophic claims
- the maintenance of appropriate actuarial reserves including reserves to cover claims incurred but not yet reported
- the identification and consistent monitoring against budget projections derived from the actuarial projections models of external variables which impact claims cash flow such as mortality and morbidity experience, claims frequency and persistency
- managing of risk exposures using various analyses and valuation techniques, including stochastic modelling, to calculate the capital required under adverse risk scenarios; and
- the monitoring of natural disasters such as floods, storms, earthquakes and other catastrophes. Exposures to such risks are monitored using catastrophe models.

In addition, the Board receives Financial Condition Reports from the Appointed Actuary who also provides advice in relation to premium, issuing of new policies and reinsurance arrangements in accordance with APRA Prudential Standards. The Company Actuary for Asteron Life Limited (New Zealand) (ALLNZ) provides a Financial Condition Report and similar advice to the ALLNZ Board.

Concentration of insurance risk is mitigated through diversification over classes of insurance business, industry segments, geographical segments (Australia and New Zealand), the use of reinsurer coverage and ensuring there is an appropriate mixture of individual and Suncorp Group insurance business split between mortality, morbidity and annuity benefit payments. Catastrophe insurance is also purchased to ensure that any accumulation of losses from one area is protected.

Exposure to risk of large claims for individual lives is managed through the use of surplus reinsurance arrangements whereby the Suncorp Group's maximum exposure to any individual life is capped. Concentrations of risk by product type are managed through monitoring of the Suncorp Group's in-force life insurance business and the mix of new business written each year.

A product pricing and re-rating process ensures that any cross subsidies between insurance rates for groups of policyowners of different sex and age are minimised such that profitability is not materially impacted by changes to the age and sex profile of the in-force business.

34.2.2 Terms and conditions of insurance business

(a) General Insurance

The majority of direct insurance contracts written are entered into on a standard form basis. Insurance contracts are generally entered into on an annual basis and at the time of entering into a contract all terms and conditions are negotiable or, in the case of renewals, renegotiable. Non-standard and long-term policies may only be written if expressly approved by a relevant delegated authority. There are no special terms and conditions in any non-standard contracts that would have a material impact on the financial statements. There are no embedded derivatives that are separately recognised from a host insurance contract.

(b) Life business

The nature and terms of the insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend.

The table provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance and investment contracts issued by the Suncorp Group depend.

TYPE OF CONTRACT	DETAILS OF CONTRACT WORKINGS	NATURE OF COMPENSATION FOR CLAIMS	KEY VARIABLES AFFECTING THE TIMING AND UNCERTAINTY OF FUTURE CASH FLOWS
Long-term non-participating insurance contracts with fixed and guaranteed terms (Term Life and Disability)	Guaranteed benefits paid on death, ill health or maturity which are fixed and are not at the discretion of the issuer.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, lapses, expenses and market earning rates on the assets backing the liabilities
Conventional life insurance contracts with discretionary participating benefits (Endowment and Whole of Life)	These policies combine life insurance and savings. The policyowner pays a regular premium and receives the specified sum assured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on surrender, death or maturity.	Operating profit arising from these contracts is allocated 80:20 between the policyowners and shareholders in accordance with the *Life Act*. The amount allocated to policyowners is held as an unvested policy liability until it is distributed to specific policyowners as bonuses.	Mortality, surrenders, expenses and market earning rates on the assets backing the liabilities
Investment account contracts with discretionary participating features	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is guaranteed. Operating profit arising from these contracts is allocated between the policyowners and shareholders in accordance with the *Life Act*. The amount allocated to policyowners is held as an unvested policy liability until it is distributed to specific policyowners as interest credits.	Surrenders, expenses and market earning rates on the assets backing the liabilities
Unit Linked Investment Contracts	The gross value of premiums received is invested in units and the policyowner investment account is the value of the units. Investment management fees are deducted from policyowners annually based on the average value of funds under management.	The investment return is equal to the earnings on assets backing the investment contracts less any applicable management fees.	Market risk, expenses and withdrawals
Lifetime Annuity	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of guaranteed regular income is set at inception of the policy, including any indexation.	Longevity, expenses and market earning rates on assets backing liabilities

34. Group risk management (continued)

34.3 General insurance risk management for financial instruments

34.3.1 Credit risk

General Insurance is exposed to and manages the following key sources of credit risk.

KEY SOURCES OF CREDIT RISK	HOW THESE ARE MANAGED
Premiums receivable	Outstanding premiums on policies which are generally paid on a monthly instalment basis. Late payments will result in the cancellation of the insurance contract with the policy holder, eliminating both the credit risk and insurance risk for the unpaid balance.
Investments in financial instruments	Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings.
Reinsurance recoveries	Reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market. Concentration of credit risk is mitigated by placement of cover with a number of reinsurers with Standard & Poor's (or equivalent) credit ratings of A– or better, with participation limits and minimum security requirements imposed.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The nominal value and fair value of derivatives are illustrated in note 6.3.

The following table provides information regarding credit risk exposure of General Insurance financial assets, classified according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as non-investment grade.

	GENERAL INSURANCE						
	Credit Rating						
	AAA $m	AA $m	A $m	BBB $m	Non-investment grade $m	Not rated $m	Total $m
2011							
Cash and cash equivalents	**–**	**98**	**96**	**1**	**–**	**–**	**195**
Investment securities	**4,976**	**4,409**	**1,234**	**145**	**18**	**–**	**10,782**
Derivatives	**–**	**9**	**14**	**–**	**–**	**–**	**23**
General Insurance assets [1]	**415**	**1,224**	**2,754**	**1**	**–**	**2,522**	**6,916**
Other	**37**	**62**	**21**	**2**	**–**	**–**	**122**
	5,428	**5,802**	**4,119**	**149**	**18**	**2,522**	**18,038**
2010							
Cash and cash equivalents	–	90	65	1	–	–	156
Investment securities	5,260	4,360	1,253	140	11	127	11,151
Derivatives	–	15	21	–	–	–	36
General Insurance assets [1]	483	319	521	–	–	2,500	3,823
Other	45	56	14	2	–	–	117
	5,788	4,840	1,874	143	11	2,627	15,283

Note

1 Only include components of General Insurance assets that are classified as financial assets.

The following table provides information regarding those General Insurance financial assets which have balances which have been impaired or are past due but not impaired at balance date. An amount is considered past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis presented.

	GENERAL INSURANCE						
		Past due but not impaired					
	Neither past due nor impaired $m	0–3 mths $m	3–6 mths $m	6–12 mths $m	> 12 mths $m	Impaired $m	Total $m
2011							
Premiums outstanding	1,786	26	32	8	7	5	1,864
Other receivables designated at fair value through profit or loss	327	25	3	1	–	2	358
	2,113	51	35	9	7	7	2,222
2010							
Premiums outstanding	1,679	64	10	4	5	–	1,762
Other receivables designated at fair value through profit or loss	163	27	7	2	2	–	201
	1,842	91	17	6	7	–	1,963

All other receivables are neither past due nor impaired. General Insurance does not expect any counterparties to fail to meet their obligations given their credit ratings and therefore does not require collateral or other security to support credit risk exposures.

34.3.2 Liquidity risk

To ensure payments are made when they fall due, General Insurance has the following key facilities and arrangements in place to mitigate liquidity risks:

– investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations
– investment funds set aside within the portfolio that can be realised to meet significant claims payment obligations
– in the event of a major catastrophe, immediate cash access is available under the terms of reinsurance arrangements; and
– mandated liquidity limits imposed to each General Insurance legal entity.

The following table summarises the maturity profile of General Insurance financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for outstanding general insurance claims liabilities based on the discounted estimated timing of net cash outflows.

	GENERAL INSURANCE				
General Insurance	Carrying amount $m	1 year or less $m	1 to 5 years $m	Over 5 years $m	Total cash flows $m
2011					
Payables and other liabilities	1,029	1,004	31	3	1,038
Unearned premium liabilities	3,854	3,846	8	–	3,854
Net discounted outstanding claims liabilities	6,317	2,028	3,163	1,126	6,317
Subordinated notes	678	42	520	294	856
Managed funds units on issue	16	16	–	–	16
	11,894	6,936	3,722	1,423	12,081
Gross settled derivatives					
Amounts receivable	–	(12)	(45)	(11)	(68)
Amounts payable	88	17	75	20	112
	88	5	30	9	44

34. Group risk management (continued)

34.3 General insurance risk management for financial instruments (continued)

34.3.2 Liquidity risk (continued)

	GENERAL INSURANCE				
	Carrying amount $m	1 year or less $m	1 to 5 years $m	Over 5 years $m	Total cash flows $m
2010					
Payables and other liabilities	729	693	34	10	737
Unearned premiums liabilities	3,670	3,663	7	–	3,670
Net discounted outstanding claims liabilities	6,335	2,046	3,128	1,161	6,335
Subordinated notes	690	44	348	552	944
Managed funds units on issue	15	15	–	–	15
	11,439	6,461	3,517	1,723	11,701
Gross settled derivatives					
Amounts receivable	–	(13)	(53)	(240)	(306)
Amounts payable	48	17	19	90	126
	48	4	(34)	(150)	(180)

34.3.3 Market risk

(a) Foreign exchange risk

General Insurance is exposed to foreign exchange risk through its outstanding claims liability from previously written offshore reinsurance business, predominantly denominated in United States dollars (USD). This exposure is managed using a USD forward exchange contract. A sensitivity analysis showing the impact on profit or loss and equity reserves for changes in foreign exchange rate for exposure as at the balance date with all other variables including interest rates remaining constant is shown in the table below. The movements in foreign exchange rate used in the sensitivity analysis for 2011 have been revised to reflect updated assessment of the reasonable possible changes in foreign exchange rate over the next twelve months given renewed observations and experience in the investment markets during the financial year.

	GENERAL INSURANCE							
	2011				2010			
	Exposure at 30 June $m	Change in FX rate %	Profit (loss) after tax $m	Equity reserves $m	Exposure at 30 June $m	Change in FX rate %	Profit (loss) after tax $m	Equity reserves $m
USD	**11**	**+15**	**(1)**	**–**	11	+10	(1)	–
		–15	**1**	**–**		–10	1	–

(b) Interest rate risk

Interest rate risk exposure arises mainly from investment in interest-bearing securities and from ongoing valuation of insurance liabilities. The investment portfolios hold significant interest-bearing securities in support of corresponding outstanding claims liabilities and are invested in a manner consistent with the expected duration of claims payments. Interest rate risk is also managed by the controlled use of interest rate derivative instruments. The sensitivity of profit and loss after tax and equity reserves to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. The movements in interest rate used in the sensitivity analysis for 2011 have been revised to reflect updated assessment of the reasonable possible changes in interest rate over the next 12 months given renewed observations and experience in the investment markets during the financial year.

	GENERAL INSURANCE							
	2011				2010			
	Exposure at 30 June $m	Change in interest rate %	Profit (loss) after tax $m	Equity reserves $m	Exposure at 30 June $m	Change in interest rate %	Profit (loss) after tax $m	Equity reserves $m
Interest-bearing investment securities (including derivative financial instruments)	10,696	+1.5	(272)	–	11,071	+2.0	(352)	–
		–0.6	108	–		–2.0	352	–
Other financial liabilities	(596)	+1.5	(6)	–	(170)	+2.0	(3)	–
		–0.6	3	–		–2.0	3	–

(c) Equity risk

The General Insurance business has exposure to equity risk through investments in international unit trusts where the unit trusts have investments in equity. The table below presents a sensitivity analysis showing the impact on profit or loss and equity reserves for price movements for exposures as at the balance date with all other variables remaining constant. The price movements for international unit trusts used in the sensitivity analysis for 2011 have been revised to reflect updated assessment of the reasonable possible movements over the next 12 months given renewed observations and experience in the investment markets during the financial year.

	GENERAL INSURANCE							
	2011				2010			
	Exposure at 30 June $m	Change in prices %	Profit (loss) after tax $m	Equity reserves $m	Exposure at 30 June $m	Change in prices %	Profit (loss) after tax $m	Equity reserves $m
International unit trusts	86	+20	12	–	80	+25	13	–
		–20	(12)	–		–25	(13)	–

(d) Credit spread risk

General Insurance is exposed to credit spread risk through its investments in interest-bearing securities. This risk is mitigated by incorporating a diversified investment portfolio, establishing maximum exposure limits for counterparties and minimum limits on credit ratings. The table below presents a sensitivity analysis on how movements credit spread movements could affect General Insurance's profit or loss for its exposure as at the year end. The movements in credit spread used in the sensitivity analysis for 2011 have been revised to reflect updated assessment of the reasonable possible changes in credit spread over the next 12 months given renewed observations and experience in the investment markets during the financial year.

	GENERAL INSURANCE					
	2011			2010		
	Exposure at 30 June $m	Change in credit spread %	Profit (loss) after tax $m	Exposure at 30 June $m	Change in credit spread %	Profit (loss) after tax $m
Credit exposure (excluding semi-government)	6,337	+0.6	(60)	7,807	+2.0	(214)
		–0.3	30		–2.0	214
Credit exposure (semi-government)	1,277	+0.2	(9)	1,631	+0.6	(14)
		–0.1	4		–0.6	14

34. Group risk management (continued)

34.4 Banking risk management for financial instruments

34.4.1 Credit risk

Banking is exposed to credit risk from traditional lending to customers and receivables from inter-bank, treasury, international trade and capital market activities.

Credit risk is managed on a structured basis with approval decisions being taken within credit approval authorities delegated by the Board. The acceptance and management of credit risk is performed independently as is the setting and maintaining of detailed credit policies and standards. The Bank Credit Risk Committee and the Banking Chief Risk Officer have responsibility for the independent management of credit functions to monitor trends impacting the credit quality of lending portfolios, developing and maintaining risk grading and automated risk assessment systems and managing troublesome and impaired assets.

Credit risk involves a wide spectrum of customers ranging from individuals to large institutions and as such credit risk management is divided into two distinct categories: a statistically managed portfolio and risk-graded portfolio.

The statistically managed portfolio covers consumer business (personal loans and housing loans) and automated credit scoring is widely used to determine customer creditworthiness. Credit scoring is embedded within the Bank's end-to-end automated workflow system that also enforces credit policies and certain business rules. These exposures are generally not reviewed individually unless arrears occur when all collections and recovery actions are managed by a centralised team.

The risk-graded portfolio includes business and corporate exposures. Within this portfolio, exposures are individually assessed and an internal risk grade assigned depending on discrete analysis of each customer or group of related customers' risk profile. Exposures within this portfolio are generally subject to annual (or more frequent) review, including a reassessment of the assigned internal risk grade. In the event of default, collections and recovery activity is managed within a well-defined structure. This process involves initial follow-up by the client manager including regular performance monitoring, reporting and, if required, transfer to a central intensive management or Credit Recovery Unit.

A credit inspection process is in place to review the acceptance and management of credit risk in accordance with the approved risk management framework.

The Bank restricts its exposure to credit losses on derivative contracts by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. The International Swaps and Derivatives Association (ISDA) Master Agreement provides a contractual framework for derivatives dealing across a full range of over-the-counter products. This agreement contractually binds both parties to apply close out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The nominal value and fair value of derivatives are illustrated in note 7.3.

The table below details Banking's exposure to credit risk from its financial assets and credit commitments as at the financial year end. It is prepared on the following basis:

– No adjustments made for any collateral held or credit enhancements;
– Impaired loans are those for which the Bank has determined that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. This includes loans that are individually impaired and those forming the group of homogeneous assets in respect of which a collective impairment provision has been calculated. In relation to loans for business purposes, all relevant circumstances surrounding the customer are considered before a loan is considered impaired; and
– An asset is considered past due when any payment under the strict contractual terms have been missed or received late. The amount included as past due is the entire contractual balance, not just the overdue portion.

	BANKING									
	Receivables due from other banks $m	Trading securities $m	Investment securities $m	Loans, advances and other receivables $m	Credit commit-ments $m	Derivative instruments[1] $m	Total risk $m	Individually provisioned impaired assets $m	Past due $m	Total not past due or impaired $m
2011										
Agribusiness	–	–	–	3,387	15	–	3,402	216	42	3,144
Construction	–	–	–	3,123	126	–	3,249	1,421	139	1,689
Financial services	226	4,952	5,742	4,632	30	503	16,085	–	–	16,085
Hospitality	–	–	–	1,143	–	–	1,143	49	15	1,079
Manufacturing	–	–	–	568	–	–	568	15	6	547
Professional services	–	–	–	363	–	–	363	5	4	354
Property investment	–	–	–	4,003	–	–	4,003	538	74	3,391
Real estate – Mortgage	–	–	–	29,332	1,150	–	30,482	21	1,591	28,870
Personal	–	–	–	354	–	–	354	–	38	316
Government and public authorities	–	–	–	3	–	–	3	–	–	3
Other commercial and industrial	–	–	–	2,350	95	–	2,445	116	220	2,109
Total gross credit risk	226	4,952	5,742	49,258	1,416	503	62,097	2,381	2,129	57,587
Impairment provisions							(564)	(387)	(122)	(55)
							61,533	1,994	2,007	57,532
2010										
Agribusiness	–	–	–	3,249	18	–	3,267	205	33	3,029
Construction	–	–	–	4,356	127	–	4,483	1,304	144	3,035
Financial services	232	8,233	3,130	2,663	163	886	15,307	–	–	15,307
Hospitality	–	–	–	1,151	–	–	1,151	89	4	1,058
Manufacturing	–	–	–	711	–	–	711	13	14	684
Professional services	–	–	–	440	–	–	440	11	6	423
Property investment	–	–	–	6,279	–	–	6,279	410	80	5,789
Real estate – Mortgage	–	–	–	29,311	1,116	–	30,427	19	1,338	29,070
Personal	–	–	–	569	–	–	569	–	39	530
Government and public authorities	–	–	–	6	–	–	6	–	–	6
Other commercial and industrial	–	–	–	3,083	217	–	3,300	71	243	2,986
Total gross credit risk	232	8,233	3,130	51,818	1,641	886	65,940	2,122	1,901	61,917
Impairment provisions							(672)	(471)	(138)	(63)
							65,268	1,651	1,763	61,854

Note

1 Credit equivalent amount of off-balance sheet exposures.

34. Group risk management (continued)

34.4 Banking risk management for financial instruments (continued)

34.4.1 Credit risk (continued)

(a) Credit quality

The following table provides information regarding the credit quality of Banking's loans, advances and receivables. Performing loans represent loans that are neither past due nor impaired. Non-performing loans represent loans that are past due and not past due but impaired.

	PAST DUE	NOT PAST DUE
IMPAIRED	Non-performing loans	Non-performing loans
NOT IMPAIRED	Non-performing loans	Performing loans

	BANKING	
	2011 $m	2010 $m
Performing loans		
Loans, advances and receivables	**43,538**	46,505
Includes amounts with renegotiated terms	**3**	1
Collective allowance for impairment	**(55)**	(63)
	43,486	46,443
Non-performing loans – not impaired		
Non-performing – not impaired	**3,336**	3,190
Collective allowance for impairment	**(122)**	(138)
	3,214	3,052
Non-performing loans – impaired		
Individually impaired	**2,381**	2,122
Specific allowance for impairment	**(387)**	(471)
	1,994	1,651
Total Banking loans, advances and receivables	**48,694**	51,146

Ageing of past due but not impaired financial assets is used by Banking to measure and manage emerging credit risks. A summary of the ageing of past due but not impaired loans and advances and other receivables is noted below. The balances of financial assets other than loans, advances and other receivables are all neither past due nor impaired.

	BANKING					
	Past due but not impaired					
	0-30 days $m	30-60 days $m	60-90 days $m	90-180 days $m	> 180 days $m	Total $m
2011						
Loans and advances						
Retail banking	**886**	**301**	**143**	**180**	**119**	**1,629**
Business banking	**134**	**109**	**45**	**201**	**11**	**500**
	1,020	**410**	**188**	**381**	**130**	**2,129**
2010						
Loans and advances						
Retail banking	860	230	109	111	67	1,377
Business banking	158	142	58	153	13	524
	1,018	372	167	264	80	1,901

(b) Collateral management

Collateral is used to mitigate credit risk as the secondary source of repayment in case the counterparty cannot meet their contractual repayment commitments.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Suncorp Group upon extension of credit, is based on management's credit evaluation of the counterparty.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. With more than 50% (2010: 50%) of the Bank's lending being consumer in nature and 98% (2010: 98%) of that secured by residential property the Bank's exposures are ultimately linked to factors impacting employment and residential property values.

An estimate of the fair value of collateral and other security enhancements held by the Bank against Non-performing loans – Impaired is $2,305 million (2010: $2,001 million). It has not been practicable to determine the fair value of collateral held as security against Non-performing loans – not impaired or Performing loans.

(c) Concentration of credit risk

Concentration of credit risk is managed by client/counterparty and industry sector. Portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations.

Details of the aggregate number of Banking's corporate exposures (including direct and contingent exposures) which individually were greater than 5% of the Banking capital resources (Tier 1 and Tier 2 capital) are as follows:

	BANKING	
	2011 Number	2010 Number
25 percent and greater	3	2
20 percent to less than 25 percent	–	–
15 percent to less than 20 percent	2	3
10 percent to less than 15 percent	–	–
5 percent to less than 10 percent	4	5

A structure of industry concentration limits has been developed to monitor exposure levels within the risk-graded portfolio. These are tactical limits upon which business planning and developmental activity is based but also act as guidelines for portfolio concentration purposes.

34.4.2 Liquidity risk

The Bank's liquidity risk is managed using a framework that includes going concern and name crisis scenario analysis, minimum high quality liquid asset ratios, minimum liquid asset ratios, liquidity concentration limits and other supplementary management trigger limits.

The Board Risk Committee approves liquidity policies and reviews relevant risk limits. Liquidity and funding policies are also subject to APRA review. Executive management of liquidity risk is delegated to the Bank Asset and Liability Committee, which reviews risk measures and limits, endorses and monitors the overall Bank funding and liquidity strategy. Operational management of liquidity risk is delegated to the Balance Sheet Management section of the Bank Treasury. Liquidity risk is independently monitored against approved policies on a daily basis by the Market Risk division and reported to the Bank Chief Risk Officer.

34. Group risk management (continued)

34.4 Banking risk management for financial instruments (continued)

34.4.2 Liquidity risk (continued)

(a) Concentrations of deposits and borrowings

Details of the concentration of financial liabilities used by Banking to raise funds are as follows:

	BANKING	
	2011 $m	2010 $m
Australian funding sources		
Retail deposits	**27,698**	26,375
Wholesale funding	**8,341**	7,485
AUD domestic program	**4,988**	5,725
Securitisation	**3,014**	3,981
	44,041	43,566
Overseas wholesale funding sources		
Foreign exchange retail deposits	**198**	182
European commercial paper and medium-term note market	**7,049**	6,916
Subordinated note programme	**676**	800
United States 144a medium-term note market	**2,124**	5,953
Japanese yen bond program	**–**	172
Securitisation	**620**	924
	10,667	14,947
	54,708	58,513
Comprised of the following:		
Deposits from other banks	**301**	280
Other money market deposits	**3,752**	3,385
Amounts owed to other depositors	**24,293**	23,239
Certificates of deposit	**6,995**	6,175
Promissory notes and other liabilities evidenced by paper	**3,840**	1,029
Bonds, notes and long-term borrowings	**10,151**	17,044
Other borrowed funds	**5,376**	7,361
	54,708	58,513

(b) Maturity analysis

The following table summarises the maturity profile of Banking's financial liabilities based on the remaining undiscounted contractual obligations.

The cash flows for subordinated notes have been included at their next call date. The total cash flows include both principal and associated future interest payments. Interest is calculated based on liabilities held at balance date, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the balance date.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the less than three months column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Banking does not use this contractual maturity information as presented in the liquidity management of the balance sheet. Additional factors as described above are considered when managing the maturity profiles of the business.

BANKING	Carrying amount $m	At call $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total Cash flows $m
2011							
Deposits and short-term borrowings	**39,247**	**10,134**	**22,097**	**7,116**	**1,401**	**1**	**40,749**
Payables due to other banks	**31**	**31**	**–**	**–**	**–**	**–**	**31**
Payables and other liabilities	**669**	**–**	**669**	**–**	**–**	**–**	**669**
Derivative financial instruments (trading)	**277**	**–**	**277**	**–**	**–**	**–**	**277**
Securitisation liabilities	**3,634**	**–**	**352**	**772**	**2,564**	**466**	**4,154**
Debt issues	**10,151**	**–**	**580**	**2,384**	**8,141**	**–**	**11,105**
Subordinated notes	**846**	**–**	**180**	**37**	**700**	**–**	**917**
Preference shares	**830**	**–**	**115**	**31**	**774**	**–**	**920**
	55,685	**10,165**	**24,270**	**10,340**	**13,580**	**467**	**58,822**
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		**–**	**292**	**654**	**651**	**–**	**1,597**
Contractual amounts receivable		**–**	**(150)**	**(409)**	**(362)**	**–**	**(921)**
	2,306	**–**	**142**	**245**	**289**	**–**	**676**
Off-balance sheet positions							
Guarantees entered into in the normal course of business	**–**	**165**	**–**	**–**	**–**	**–**	**165**
Commitments to provide loans and advances	**–**	**6,062**	**–**	**–**	**–**	**–**	**6,062**
	–	**6,227**	**–**	**–**	**–**	**–**	**6,227**
2010							
Deposits and short-term borrowings	34,244	9,656	15,582	7,120	3,038	1	35,397
Payables due to other banks	28	28	–	–	–	–	28
Payables and other liabilities	887	–	887	–	–	–	887
Derivative financial instruments (trading)	364	–	364	–	–	–	364
Securitisation liabilities	4,906	–	380	1,149	3,412	687	5,628
Debt issues	17,044	–	155	7,836	10,663	–	18,654
Subordinated notes	1,492	–	227	361	1,018	–	1,606
Preference shares	869	–	14	35	957	–	1,006
	59,834	9,684	17,609	16,501	19,088	688	63,570
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		–	412	1,022	1,489	–	2,923
Contractual amounts receivable		–	(185)	(610)	(898)	–	(1,693)
	2,045	–	227	412	591	–	1,230
Off-balance sheet positions							
Guarantees entered into in the normal course of business	–	287	–	–	–	–	287
Commitments to provide loans and advances	–	6,046	–	–	–	–	6,046
	–	6,333	–	–	–	–	6,333

34. Group risk management (continued)

34.4 Banking risk management for financial instruments (continued)

34.4.3 Market risk

The Bank is exposed to mainly two sources of market risk, being interest rate and foreign exchange (FX) risks. For the purposes of market risk management, these are further broken down into traded and non-traded market risks.

The Bank's market risk management objectives are described below:

	INTEREST RATE RISK	FOREIGN EXCHANGE RISK
TRADED	The Bank trades a range of on-balance sheet and derivative interest rate products. The principal objective of traded interest rate risk management is to generate income through disciplined trading, provide a service to the Bank's customers and act as a market maker to internal customers. Income is earned from spreads achieved through market making and from effective trading conducted within the traded market risk management framework.	The Bank trades a range of foreign exchange products including derivatives. The principal objective of traded foreign exchange risk management is to generate income through disciplined trading, provide a service to the Bank's customers and act as a market maker to internal customers. Income is earned from spreads achieved through market making and from effective trading conducted within the traded market risk management framework.
NON-TRADED	The principal objective of non-traded interest rate risk management is to maximise and stabilise net interest income and the present value of the statement of financial position over time providing secure and sustainable net interest income in the long-term. Derivative financial instruments are used for the purposes of managing existing or anticipated interest rate risk from non-trading activities.	Non-traded foreign exchange risk arises where investments in non-Australian operations expose current and future earnings to movements in foreign exchange rates. The objective of foreign currency exchange risk management is to minimise the impact on earnings of any such movements. The policy is to fully hedge any such exposure and accordingly minimal exposure to non-traded foreign exchange risk exists. All offshore borrowing facilities arranged as part of the overall funding diversification process (refer 'Concentrations of deposit and borrowing' in Liquidity Risk) have been economically hedged in respect of their potential foreign exchange risk, through the use of derivative financial instruments.

(a) Traded market risk measurement: Value at risk (VaR)

Traded interest rate and foreign exchange risks are managed using a framework that includes value at risk (VaR) limits, sensitivity limits and stop loss limits. VaR measures potential loss using historically observed market volatility and correlation between different markets. It is a statistical estimate of the potential loss that could be incurred if the Bank's trading positions were maintained for a pre-defined time period. VaR is predominantly calculated using historical simulation. This method involves multiple revaluations of the trading books using two years of historical pricing shifts. The pricing data is rolled daily so as to have the most recent two-year history of prices. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one-day holding period for all positions. A 99% confidence level implies that for every 100 days, the loss should not exceed the VaR on 99 of those days.

The VaR model, based on a Monte Carlo simulation methodology, takes into account correlations between different positions and the potential for movements to offset one another within the individual portfolios. The major limitation of this methodology is that the historical market data used to forecast parameters of the model might not be an appropriate proxy of those parameters. Market risk from proprietary trading activities is independently calculated and monitored on a daily basis. Actual results are back-tested to check the accuracy of the model and scenario analysis is regularly performed to simulate more extreme market movements.

(b) Traded market risk

The VaR for the Bank's exposure to traded interest rate and foreign exchange risks for the year are as follows:

	BANKING					
	2011			2010		
	Interest rate risk $m	FX risk $m	Combined risk[1] $m	Interest rate $m	FX risk $m	Combined risk[1] $m
Traded market risks						
VaR at end of the financial year	**0.60**	**0.45**	**0.82**	1.48	0.46	1.53
Maximum VaR during the financial year	**1.47**	**0.80**	**1.60**	2.26	0.85	2.46
Minimum VaR during the financial year	**0.41**	**0.04**	**0.43**	0.58	0.08	0.74
VaR during the financial year	**0.75**	**0.33**	**0.91**	1.59	0.32	1.69

Note

1 VaR for combined risk is the total trading interest rate and foreign exchange risks, taking into account correlations between different positions in both the interest rate and foreign exchange trading portfolios.

(c) Non-traded interest risk

Net interest earnings sensitivity

The Bank measures the risk to the net interest earnings over the next 12 months from a change in interest rates on at least a monthly basis. A simulation model is used to combine underlying financial position data with assumptions about new business and expected repricing behaviour to calculate the Bank's net interest income at risk. The analysis is generally based on contractual repricing information.

The scenario analysis below shows the potential percentage change in net interest earnings in the ensuing 12 month period based on a 1% parallel shock in the yield curve.

	BANKING	
	Change in net interest earnings p.a.	
	2011 %	2010 %
Banking non-traded interest rate risk exposure scenario analysis based on 1% parallel shock in the yield curve		
Exposure at end of financial year	1.34	0.32
Average monthly exposure during the financial year	1.60	1.04
High month exposure during the financial year	2.13	2.28
Low month exposure during the financial year	0.92	–

Present value sensitivity

As a measure of longer term sensitivity, the Bank measures the present value sensitivity of its statement of financial position which represents the present value of the net interest income at risk of all known cash flows in the future. A pre-defined adverse interest rate shock is applied to the market curve and the statement of financial position is revalued. The difference between the present value of the statement of financial position using the market curve and the shocked curve shows the sensitivity of the present value of the statement of financial position to the pre-defined shock.

The following table indicates the potential adverse change in present value sensitivity of the Bank's statement of financial position. The change is based on an adverse 1% shock.

	BANKING	
	Change in net interest income p.a.	
	2011 $m	2010 $m
Banking non-traded interest rate risk exposure – sensitivity of present value of net interest income from statement of financial position based on adverse 1% shock		
Exposure at end of financial year	10	22
Average monthly exposure during the financial year	9	27
High month exposure during the financial year	13	60
Low month exposure during the financial year	2	3

34. Group risk management (continued)

34.4 Banking risk management for financial instruments (continued)

34.4.3 Market risk (continued)

(c) Non-traded interest risk (continued)

Present value sensitivity including off-balance sheet positions

The Bank also periodically prepares a value at risk type analysis to value asset, liability and off-balance sheet positions under a range of possible interest rate scenarios. Value at risk provides information on the potential adverse change that could occur to the present value of assets and liabilities under a range of possible interest rate scenarios where repricing dates do not match. The interest rate scenarios are derived from actual interest rate movements that have occurred over discrete three-month and two-year historical observation periods. A 97.5% confidence level and a one-month holding period are used for the simulation. The information is based on contractual repricing information.

	BANKING	
	Change in net interest income p.a.	
	2011 $m	2010 $m
Banking non-traded interest rate risk exposure – VaR analysis for sensitivity of net interest income from asset, liability and off-balance sheet positions based on 97.5% confidence interval		
Exposure at end of financial year	6	29
Average monthly exposure during the financial year	8	32
High month exposure during the financial year	16	56
Low month exposure during the financial year	–	10

(d) Non-traded foreign exchange risk

Non-traded foreign exchange risk arises where investments in non-Australian operations expose current and future earnings to movements in foreign exchange rates. The objective of foreign currency exchange risk management is to minimise the impact on earnings of any such movements. The policy is to fully hedge any such exposure and accordingly minimise exposure to the risk. All offshore borrowing facilities arranged as part of the overall funding diversification process have been economically hedged in respect of their potential foreign exchange risk through the use of derivative financial instruments (refer note 34.7).

34.5 Life risk management for financial instruments

34.5.1 Credit risk

Life is exposed to and manages the following key sources of credit risk.

KEY SOURCES OF CREDIT RISK	HOW ARE THESE MANAGED
Investments in financial instruments	Financial instruments are only dealt on recognised exchanges and over-the-counter contracts. The counterparties to over-the-counter contracts are limited to companies with primarily investment grade credit ratings from a recognised credit rating agency and are normally banks operating in Australia. Credit management (credit rating and credit limit controls), and counterparty diversification policies are in place to limit exposure to any one counterparty as a proportion of the investment portfolio.
Reinsurance recoveries	Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with strong credit ratings.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The nominal value and fair value of derivatives are illustrated in note 8.3.

The following table provides information regarding credit risk exposure of Life financial assets, classified according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as non-investment grade.

LIFE	Credit Rating							
	AAA $m	AA $m	A $m	BBB $m	Non-investment grade $m	Other not rated $m	Investment linked business[1] $m	Total $m
2011								
Cash and cash equivalents	**77**	**150**	**128**	**–**	**–**	**–**	**310**	**665**
Investments	**1,823**	**725**	**232**	**27**	**1**	**32**	**615**	**3,455**
Life assets	**–**	**6**	**–**	**–**	**–**	**647**	**–**	**653**
Other	**–**	**–**	**–**	**–**	**–**	**1**	**3**	**4**
	1,900	**881**	**360**	**27**	**1**	**680**	**928**	**4,777**
2010								
Cash and cash equivalents	–	132	99	–	–	–	344	575
Investments	1,243	624	834	33	7	158	545	3,444
Life assets	15	247	122	–	–	212	37	633
Other	–	3	8	–	–	1	1	13
	1,258	1,006	1,063	33	7	371	927	4,665

Note

1 For investment-linked business, the liability to policyowners is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets.

The following table provides information regarding those Life financial assets which have balances which have been impaired or are past due but not impaired at balance date. An amount is considered past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis below. For investment-linked business, the liability to policyowners is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets and the table below does not include any financial assets backing investment-linked business.

LIFE		Past due but not impaired					
	Neither past due nor impaired $m	0–3 mths $m	3–6 mths $m	6–12 mths $m	> 12 mths $m	Impaired $m	Total $m
2011							
Premiums outstanding	**4**	**16**	**–**	**–**	**–**	**–**	**20**
Reinsurance recoveries receivable	**62**	**14**	**4**	**3**	**–**	**–**	**83**
Other receivables	**162**	**4**	**2**	**2**	**3**	**38**	**211**
	228	**34**	**6**	**5**	**3**	**38**	**314**
2010							
Premiums outstanding	5	14	–	–	–	–	19
Investment settlements	59	–	–	–	–	–	59
Reinsurance recoveries receivable	49	11	4	–	1	–	65
Other receivables	125	3	3	1	3	28	163
	238	28	7	1	4	28	306

Life does not expect any counterparties to fail to meet their obligations given their credit ratings and therefore does not require collateral or other security to support credit risk exposures.

34. Group risk management (continued)

34.5 Life risk management for financial instruments (continued)

34.5.2 Liquidity risk

To ensure payments are made when they fall due, Life has the following key facilities and arrangements in place to mitigate liquidity risks:

- investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations
- regularity of premiums received provides substantial liquidity to meet claims payments and associated expenses as they arise; and
- flexibility in investment strategies implemented for investment management to provide sufficient liquidity to meet claims payment as they fall due, based on actuarial assessments.

The following table summarises the maturity profile of Life financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for life insurance and life investment contract policy liabilities based on the discounted estimated timing of net cash outflows.

	LIFE						
	Carrying amount $m	1 year or less $m	1 to 5 years $m	Over 5 years $m	No term $m	Investment linked [1] $m	Total cash flows $m
2011							
Trade creditors and accrued expenses	**63**	**63**	**–**	**–**	**–**	**–**	**63**
Outstanding claims liabilities	**167**	**123**	**–**	**–**	**44**	**–**	**167**
Other liabilities including derivatives	**190**	**188**	**–**	**–**	**–**	**2**	**190**
Net Life policy liabilities	**5,282**	**297**	**739**	**586**	**–**	**3,660**	**5,282**
Unvested policyowner benefits	**383**	**3**	**–**	**–**	**380**	**–**	**383**
Managed funds units on issue	**673**	**673**	**–**	**–**	**–**	**–**	**673**
	6,758	**1,347**	**739**	**586**	**424**	**3,662**	**6,758**
2010							
Trade creditors and accrued expenses	226	197	29	–	–	–	226
Outstanding claims liabilities	142	98	–	–	44	–	142
Other liabilities including derivatives	122	122	–	–	–	–	122
Net Life policy liabilities	5,256	250	640	697	–	3,669	5,256
Unvested policyowner benefits	404	4	–	14	386	–	404
Managed funds units on issue	422	422	–	–	–	–	422
	6,572	1,093	669	711	430	3,669	6,572

Note

1 For investment-linked business, the liability to policyowners is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to liquidity risk in those assets.

34.5.3 Market risk

Market risk in Life arises from mismatches between asset returns and guaranteed liability returns, adverse movements in market prices affecting fee income on investment-linked policies and from returns obtained from the investment of shareholders' capital held in each Life company.

Management of market risk is most critical for products which involve the investment of significant amounts of money to meet future liabilities and where the returns on those assets either accrue to the shareholder or are not necessarily able to be passed on to policyowners in a timely manner. This includes, for example, assets backing disability income reserves for open claims and participating business. For some non-participating insurance products, such as unit-linked products, market risks are passed on to the policyowner, although as noted, the shareholder's fee revenue may be adversely affected by market falls.

(a) Foreign exchange risk

The statutory funds of the Suncorp Group's Life business invest in overseas assets. In the investment-linked funds any investment returns, whether positive or negative, are passed on to the policyholders. Various guarantees are provided by the non-investment-linked statutory funds, principally in relation to capital and declared interest. The relevant statutory funds maintain reserves in accordance with APRA Prudential Standards (local actuarial Professional Standards for New Zealand) to meet the risk associated with diminution of value associated with foreign exchange risk.

The Life companies invest a portion of investment assets in global equities with foreign currency exposure managed by entering into forward foreign exchange and futures contracts. The Life companies also invest in several Suncorp Group related Trusts who enter into forward foreign contracts to aim to provide capital appreciation.

	LIFE							
	2011				2010			
	Exposure at 30 June $m	Change in FX rate %	Profit (loss) after tax $m	Equity reserves $m	Exposure at 30 June $m	Change in FX rate %	Profit (loss) after tax $m	Equity reserves $m
USD	129	+15	12	–	126	+10	7	–
		–15	(16)	–		–10	(10)	–
Other [1]	102	+15	9	–	112	+10	7	–
		–15	(13)	–		–10	(10)	–

Note

1 Include EUR, GBP and JPY.

(b) Interest rate risk

For Life, interest rate risk exposure arises mainly from investment in interest-bearing securities. Interest rate risk arises in respect of financial assets held in the shareholders' funds and the Life Statutory Funds over liabilities. This is combined with an economic mismatch between the timing of payments to life insurance and life investment contract holders and the duration of the assets held in the Statutory Funds to back these liabilities. Where the liability to the investment contract holder is directly linked to the value of assets held to back that liability there is no residual interest rate exposure to the shareholder. Accordingly, investment-linked business is excluded from the analysis below.

The sensitivity of profit and loss after tax and equity reserves to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the reporting date and that there are concurrent movements in interest rates and parallel shifts in the yield curves. The movements in interest rate used in the sensitivity analysis for 2011 have been revised to reflect updated assessment of the reasonable possible changes in interest rate over the next 12 months given renewed observations and experience in the investment markets during the financial year.

	LIFE							
	2011				2010			
	Exposure at 30 June $m	Change in interest rate %	Profit (loss) after tax $m	Equity reserves $m	Exposure at 30 June $m	Change in interest rate %	Profit (loss) after tax $m	Equity reserves $m
Interest-bearing investment securities (including derivative financial instruments) [1]	2,590	+1.5	(60)	–	1,959	+2.0	(75)	–
		–0.6	25	–		–2.0	77	–
Other receivables	103	+1.5	–	–	143	+2.0	2	–
		–0.6	–	–		–2.0	(2)	–
Other financial liabilities	(46)	+1.5	–	–	(72)	+2.0	(1)	–
		–0.6	–	–		–2.0	1	–

Note

1 Excludes interest-bearing investment securities held for investment-linked business as the shareholder has no direct interest rate risk exposure from these investment securities.

34. Group risk management (continued)

34.5 Life risk management for financial instruments (continued)

34.5.3 Market risk (continued)

(c) Equity risk

Life has exposure to equity risk from equity investments in its investment portfolios. Equity risk is managed by incorporating a diverse holding of Australian and overseas equities (whether direct or through unitised vehicles) and through the controlled use of derivative financial instruments. The table below presents a sensitivity analysis showing the impact on profit or loss and equity reserves for listed equity price movements as at the balance date with all other variables remaining constant. The price risk in relation to unlisted securities is immaterial in terms of the possible impact on profit or loss and equity reserves and has not been included in the sensitivity analysis. After tax impact on profit (loss) uses corporate tax rate of 30%. Actual after tax impact for Life business may differ. The equity price movements used in the sensitivity analysis for 2011 have been revised to reflect updated assessment of the reasonable possible movements over the next 12 months given renewed observations and experience in the investment markets during the financial year.

	LIFE							
	2011				2010			
	Exposure at 30 June $m	Change in equity prices %	Profit (loss) after tax $m	Equity reserves $m	Exposure at 30 June $m	Change in equity prices %	Profit (loss) after tax $m	Equity reserves $m
Listed Australian equities and unit trusts	**720**	**+20**	**139**	**–**	754	+25	160	–
		–20	**(139)**	**–**		–25	(160)	–
Listed international equities and unit trusts	**371**	**+20**	**57**	**–**	322	+25	87	–
		–20	**(57)**	**–**		–25	(87)	–

34.6 Corporate risk management for financial instruments

34.6.1 Credit risk

Corporate is exposed to credit risk primary through its investment in financial instruments. To mitigate this risk, financial instruments are only dealt on recognised exchanges and over-the-counter contracts. The counterparties to over-the-counter contracts are limited to companies with primarily investment grade credit ratings from a recognised credit rating agency and are normally banks operating in Australia. Credit management (credit rating and credit limit controls) and counterparty diversification policies are in place to limit exposure to any one counterparty as a proportion of the investment portfolio.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures.

The following table provides information regarding credit risk exposure of Corporate financial assets, classified according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as non-investment grade.

	CORPORATE						
	Credit Rating						
	AAA $m	AA $m	A $m	BBB $m	Non-investment grade $m	Not rated $m	Total $m
2011							
Cash and cash equivalents	**–**	**54**	**18**	**–**	**–**	**–**	**72**
Investment securities	**121**	**334**	**114**	**2**	**–**	**–**	**571**
Accrued interest	**1**	**3**	**2**	**–**	**–**	**–**	**6**
	122	**391**	**134**	**2**	**–**	**–**	**649**
2010							
Cash and cash equivalents	–	–	42	–	–	–	42
	–	–	42	–	–	–	42

All Corporate financial assets are neither past due nor impaired as at 30 June 2011 (2010: nil).

34.6.2 Liquidity risk

To ensure payments are made when they fall due, the Corporate investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations.

The following table summarises the maturity profile of Corporate financial liabilities based on the remaining undiscounted contractual obligations.

	CORPORATE				
	Carrying amount $m	1 year or less $m	1 to 5 years $m	Over 5 years $m	Total cash flows $m
2011					
Trade creditors and accrued expenses	55	55	–	–	55
	55	55	–	–	55
2010					
Trade creditors and accrued expenses	58	58	–	–	58
	58	58	–	–	58

34.6.3 Market risk

(a) Interest rate risk

For Corporate, interest rate risk exposure arises mainly from investment in interest-bearing securities. Interest rate risk is managed by maintaining a diversified portfolio to protect the value of the underlying assets in the portfolio from large movements. The sensitivity of profit and loss after tax and equity reserves to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and that there are concurrent movements in interest rates and parallel shifts in the yield curves.

	CORPORATE			
	2011			
	Exposure at 30 June $m	Change in interest rate %	Profit (loss) after tax $m	Equity reserves $m
Interest-bearing investment securities	571	+1.5	(5)	–
		–0.6	2	–

Corporate was not exposed to interest rate risk at 30 June 2010.

(b) Credit spread risk

Corporate is exposed to credit spread risk through its investments in interest-bearing securities. This risk is mitigated by incorporating a diversified investment portfolio, establishing maximum exposure limits for counterparties and minimum limits on credit ratings. The table below presents a sensitivity analysis on how credit spread movements could affect Corporate's profit or loss for its exposure as at the year end.

	CORPORATE		
	2011		
	Exposure at 30 June $m	Change in credit spread %	Profit (loss) after tax $m
Credit exposure (excluding semi-government)	571	+0.6	(3)
		–0.3	2

Corporate was not exposed to credit spread risk at 30 June 2010.

34. Group risk management (continued)

34.7 Derivative financial instruments and hedging

The Suncorp Group operates in multiple currencies and is a significant borrower and investor in the global markets. Derivatives are used by each business area to mitigate interest rate, foreign exchange and equity price risks. Derivatives used include exchange-traded bills and bond futures, equity index futures, over-the-counter (OTC) forward foreign exchange contracts, interest rate swaps and currency interest rate swaps.

To prevent derivatives being used as a source of gearing, all derivatives have to be wholly or partly cash covered depending on the type of risk undertaken. The investment mandates specifically prohibits the use of derivatives for leveraged trading. Leverage here is defined as creating a portfolio which would have sensitivity to an underlying economic or financial variable which is greater than could be achieved using only physical securities.

The use of derivatives exposes the Suncorp Group to credit risk. Exposure limits have been established with respect to the various asset classes. Within each asset class, derivative exposure limits are identified in the investment mandates and limits have been established on daily transaction levels. For OTC derivatives, authorised counterparties must have a minimum credit rating equivalent to a Standard & Poor's rating of 'A'.

The investment manager is responsible for monitoring these positions to ensure they do not exceed the authorities established in the investment mandate.

Investments

To a limited extent, derivatives are used within the investment portfolios where it is more efficient to use derivatives rather than physical securities. The use of derivatives is consistent with the objectives of the overall investment strategies and is one of the means by which these strategies are implemented.

Hedging of fluctuations in interest rates

Banking seeks to minimise volatility in net interest income through use of interest rate derivatives, primarily vanilla interest rate swaps. The swaps are managed over a three-year period which is approximately the average loan life.

At balance date, Banking had one (2010: four) swap designated as a fair value hedge of a fixed rate subordinated note issue and one (2010: zero) swap designated as a fair value hedge of a fixed rate bond held. All other interest rate swaps designated as hedges are cash flow hedges. The swaps designated as cash flow hedges are hedges of either variable rate mortgages or variable rate short-term debt.

Hedging of fluctuations in foreign currency rates

Banking hedges its exposure to fluctuations in foreign exchange rates through the use of derivatives in the foreign exchange market. The currencies giving rise to this risk are primarily US Dollars, Euro and Pounds Sterling.

Banking hedges its offshore debt issues using cross currency interest rate swaps and foreign exchange swaps. In respect of other financial assets and liabilities held in currencies other than AUD, Banking ensures that the net exposure is kept to an acceptable level through participation in the spot and forward markets.

All cross currency interest rate swaps entered into by the Suncorp Group are designated as hedges using the split approach. Under this approach the benchmark rate component of the swap is accounted for as a fair value hedge and the margin component as a cash flow hedge. Banking has elected to fair value its Euro Commercial Paper portfolio through the profit or loss on the basis that it is economically hedged by forward foreign exchange contracts. Both the changes in the fair value of the forward contracts and the debt issue are recognised. The fair value of forward foreign exchange contracts used as economic hedges of monetary liabilities in foreign currencies where hedge accounting is not applied as at 30 June 2011 was $39 million (2010: $37 million).

General Insurance has forward foreign exchange contracts in relation to the overseas liabilities portfolio. Under the contracts, General Insurance agrees to exchange specified amounts of United States dollars at an agreed future date, at a specified exchange rate.

	CONSOLIDATED			
	2011		2010	
	Fair value hedges $m	Cash flow hedges $m	Fair value hedges $m	Cash flow hedges $m
Hedging of fluctuations in interest rates				
Notional value of interest rate swaps designated as hedges	**379**	**14,105**	531	18,776
Fair value:				
net receive interest rate swaps	**8**	**12**	13	61
net pay interest rate swaps	**(1)**	**(102)**	–	(227)
	7	**(90)**	13	(166)

	Split approach 2011 $m	Split approach 2010 $m
Hedging of fluctuations in foreign exchange rates		
Notional value of cross currency swaps designated as hedges	**9,144**	15,546
Fair value:		
net receive cross currency swaps	**–**	287
net pay cross currency swaps	**(2,306)**	(1,865)
	(2,306)	(1,578)

Banking also hedges against the foreign currency exposure which results from the government guarantee expense. The underlying exposure is calculated as the present value of the 1% fee charged to Banking for those selected offshore liabilities, over the term of the life of the liabilities. The hedge is a cash flow hedge using foreign currency positions with foreign currency translation movements deferred to equity, and released to profit or loss as the fee expense is incurred. As at 30 June 2011 the unrealised loss from foreign currency fluctuation deferred to equity was $37 million (2010: $29 million) for government guarantee fee hedges. During the current financial year the Bank deferred to equity $25 million, and released $18 million of foreign currency loss previously deferred to equity to profit or loss (2010: deferred to equity $22 million and released $13 million of foreign currency loss previously deferred to equity to profit or loss).

Cash flows relating to the cash flow hedges are expected to impact the profit or loss in the following periods:

	CONSOLIDATED			
	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total expected cash flows $m
2011				
Forecast receivable cash flows	**468**	**209**	**–**	**677**
Forecast payable cash flows	**(535)**	**(211)**	**–**	**(746)**
	(67)	**(2)**	**–**	**(69)**
2010				
Forecast receivable cash flows	717	489	–	1,206
Forecast payable cash flows	(791)	(565)	–	(1,356)
	(74)	(76)	–	(150)

Consolidated losses of $36 million (2010: gains of $81 million) on derivatives held in qualifying fair value hedging relationships, and gains of $35 million (2010: losses of $79 million) representing changes in the fair value of the hedged items attributable to the hedged risk are recognised in profit or loss.

35. Auditors' remuneration

	KPMG Australia		Overseas KPMG firms		Other Auditors	
	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000
Audit services:						
Audit and review of financial reports	**5,040**	5,493	**1,412**	1,586	**61**	–
Other regulatory audits	**1,286**	1,837	**25**	59	**–**	–
	6,326	7,330	**1,437**	1,645	**61**	–
Non-audit services:						
Assurance engagements	**905**	645	**39**	61	**–**	–
Actuarial services	**513**	–	**–**	–	**–**	438
Taxation compliance services	**12**	12	**–**	–	**–**	–
Other non-audit services	**65**	20	**–**	–	**–**	–
	1,495	677	**39**	61	**–**	438
Total Auditors' remuneration	**7,821**	8,007	**1,476**	1,706	**61**	438

36. Subsequent events

On 22 July 2011, the Suncorp Group entered into a put and call option agreement with a potential purchaser in relation to the sale of the Suncorp Centre for $63 million. The agreement provides the potential purchaser with the right to exercise its call option to purchase the Suncorp Centre from the Suncorp Group; and the Suncorp Group the right to exercise its put option to sell the Suncorp Centre to the potential purchaser should the call option not be exercised within the agreed time frame. When either the call or put option is exercised, a sales contract will be entered into, with settlement expected late 2011. The Suncorp Centre is classified as held for sale as at 30 June 2011 (note 16).

Other than as noted above, there has not arisen in the interval between the end of the financial year 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 in future financial years.

Directors' declaration

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

(a) the financial statements and notes, and the Remuneration Report in the Directors' Report, set out on pages 12 to 162, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Suncorp Group's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*

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

2 The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Group Chief Executive Officer and Group Chief Financial Officer for the financial year ended 30 June 2011.

3 The directors draw attention to note 2.1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

John D Story
Chairman

Patrick J R Snowball
Managing Director

Dated at Brisbane this 24 August 2011

Independent auditor's report

to the members of Suncorp Group Limited

KPMG

Report on the financial report

We have audited the accompanying financial report of Suncorp Group Limited (the Company), which comprises the Consolidated statement of financial position as at 30 June 2011, and Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year ended on that date, notes 1 to 36 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the 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 financial report that is free from material misstatement whether due to fraud or error. In note 2.1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Suncorp Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Suncorp Group is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Suncorp Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.1.

Report on the Remuneration Report

We have audited the sections of the Remuneration Report included on pages 15 to 33 of the Directors' Report for the year ended 30 June 2011 that are described as audited. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the sections of the Remuneration Report of Suncorp Group Limited for the year ended 30 June 2011 that are described as audited comply with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

P.M. Reid

Paul Reid
Partner

Brisbane
24 August 2011

Shareholder information

Registered office

Level 18 Suncorp Centre
36 Wickham Terrace
Brisbane Qld 4000 Australia

Ph 07 3362 1222
Fax 07 3836 1190

www.suncorpgroup.com.au

Auditors

KPMG, Level 16, Riparian Plaza
71 Eagle Street
Brisbane Qld 4000 Australia

2011 Annual General Meeting

The 2011 Annual General Meeting of the Company is to be held on Thursday 27 October 2011 at 2.30 pm at the Sofitel Brisbane Central, 249 Turbot Street, Brisbane Qld 4000.

Key dates

Dates for dividends are subject to change and will be confirmed at the date of declaration of the respective dividend.

Annual General Meeting	**27 October 2011**
Full year results and final dividend announcement	*24 August 2011*
Ex dividend date	29 August 2011
Record date	2 September 2011
Dividend payment	3 October 2011
Half-year results announcement	*22 February 2012*
Ex dividend date	27 February 2012
Record date	2 March 2012
Dividend payment	2 April 2012

Securities information

The Company's securities listed on the Australian Securities Exchange (ASX) as at 15 August 2011 are:

CLASS OF SECURITY	ASX CODE	NUMBER
Ordinary Shares	SUN	1,286,600,980

Substantial shareholders

At 15 August 2011 the following entries were recorded in the register of substantial shareholdings (based on substantial holding notices received):

NAME	NUMBER OF ORDINARY SHARES
National Australia Bank	77,527,448
JCP Investment Partners	77,519,056

Top 20 shareholders

NAME	NUMBER	% ISSUED CAPITAL
HSBC Custody Nominees (Australia) Limited	261,644,660	20.34
National Nominees Limited	221,135,269	17.19
JP Morgan Nominees Australia Limited	202,992,081	15.78
Citicorp Nominees Pty Limited	68,806,869	5.35
Citicorp Nominees Pty Limited <Colonial First State Inv a/c>	22,456,641	1.75
Cogent Nominees Pty Limited	21,143,705	1.64
JP Morgan Nominees Australia Limited <Cash Income a/c>	16,804,934	1.31
AMP Life Limited	16,011,448	1.24
Queensland Investment Corporation	13,605,091	1.06
Australian Reward Investment Alliance	7,973,309	0.62
CPU Share Plans Pty Limited <EPSP Share Plan a/c>	7,720,225	0.60
Cogent Nominees Pty Limited <SMP Accounts>	5,739,005	0.45
UBS Nominees Pty Ltd	3,600,000	0.28
Argo Investments Limited	3,510,894	0.27
RBC Dexia Investor Services Australian Nominees Pty Limited	3,042,254	0.24
Milton Corporation Limited	2,832,882	0.22
Citicorp Nominees Pty Limited <Cwlth Bank Off Super a/c>	1,656,634	0.13
CPU Share Plans Pty Limited <Def Employee Share Plan a/c>	1,653,781	0.13
Questor Financial Services Limited <TPS RF a/c>	1,635,856	0.13
Share Direct Nominees Pty Ltd <10026 a/c>	1,620,604	0.13

The number of security investors holding less than a marketable parcel of 72 securities ($6.98 on 15 August 2011) is 5,417 and they hold 195,754 securities.

Distribution of shareholdings

RANGES	INVESTORS	NO. OF SECURITIES	% ISSUED CAPITAL
1 to 1,000	103,686	52,204,883	4.06
1,001 to 5,000	63,372	135,528,344	10.53
5,001 to 10,000	9,244	64,598,907	5.02
10,001 to 100,000	5,328	110,974,675	8.63
100,001 and over	165	923,294,171	71.76
Total	**181,795**	**1,286,600,980**	**100.00**

Voting rights of ordinary shareholders

The fully paid ordinary shareholders are entitled to vote at any meeting of the members of the Company and their voting rights are as follows on:

- Show of hands – one vote per shareholder
- Poll – one vote per fully paid ordinary share

Shareholder information (continued)

Share registry
Shareholders can obtain information about their shareholdings online or by contacting the Company's share registry, Link Market Services Limited (Link).

Link Market Services Limited

Level 15, 324 Queen Street Brisbane Qld 4000 Australia
Level 12, 680 George Street Sydney NSW 2000 Australia

Mailing address

PO Box A50 Sydney South NSW 1235 Australia

Phone 1300 882 012 (within Australia)
+61 2 8280 7450 (outside Australia)

Fax 02 9287 0303

Email suncorp@linkmarketservices.com.au
Website www.linkmarketservices.com.au

Shareholders can contact the share registry directly by phone or online by going to Link's website, or on the Suncorp website at www.suncorpgroup.com.au for a direct link to the share registry (see Securities Information/Share Registry Services).

Changing shareholder details
Shareholders sponsored by a broker (CHESS) should advise their broker of their change of address. Issuer-sponsored holders are able to change their address via Link's website (some conditions apply), or by notifying the registry.

Using their Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and other requested details, shareholders are able to make the following changes online:

– register an email address for dividend advices
– receive notices of meetings, notification of availability of annual reports and other shareholder communications
– view details of shareholdings
– obtain and complete forms such as a direct credit application form to elect to have dividends paid direct to their bank, building society or credit union account.

The Company encourages shareholders to have cash dividends credited directly. This is a more convenient and secure way to receive dividends, and saves paper and postage costs.

Dividend Reinvestment Plan
Shareholders can reinvest all or part of their dividends in Suncorp shares, with no brokerage or transaction costs. There is no minimum or maximum limit for participation. Shareholders can participate in the scheme, vary their participation or withdraw from the Dividend Reinvestment Plan at any time. Further information is available on the Suncorp website or by contacting the share registry.

Dividend history*

1997	Interim	18c
	Final	22c
1998	Interim	22c
	Final	22c
1999	Interim	22c
	Final	22c
2000	Interim	22c
	Final	24c
2001	Interim	24c
	Final	28c
2002	Interim	25c
	Final	29c
2003	Interim	26c
	Final	30c
2004	Interim	30c
	Final	40c
2005	Interim	42c
	Final	45c
	Special	75c
2006	Interim	47c
	Final	50c
2007	Interim	52c
	Final	55c
2008	Interim	52c
	Final	55c
2009	Interim	20c
	Final	20c
2010	Interim	15c
	Final	20c
2011	Interim	15c
	Final	20c

Annual report mailing
Changes in legislation have removed the obligation to mail an annual report to shareholders. Companies can now publish their annual report on their website or distribute the annual report electronically. Shareholders may also opt to receive a printed copy.

To change an election, or opt in to receive communications electronically, please contact Link.

* Following a restructure in January 2011 Suncorp Group Limited replaced Suncorp-Metway Ltd as the Suncorp Group's listed holding company.

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