Suncorp Group Limited ABN 66 145 290 124

# Financial results

## for the half year ended 31 December 2011

One Company
Many Brands

SUNCORP GROUP

# Basis of Preparation

Suncorp Group ('Group', 'the Group' or 'Suncorp') is represented by Suncorp Group Limited and its subsidiaries, its interests in associates and jointly controlled entities.

On 7 January 2011, the Suncorp Group underwent a court-approved scheme of arrangement, which resulted in Suncorp Group Limited replacing Suncorp-Metway Ltd as the ultimate holding company of the Group and Suncorp-Metway Ltd became a wholly owned subsidiary of Suncorp Group Limited. The results of the Suncorp Group are presented as a continuation of the Group when Suncorp-Metway Ltd was the ultimate holding company.

The Group's net profit after tax is measured in accordance with Australian Accounting Standards. All figures have been quoted in Australian dollars unless otherwise denoted and have been rounded to the nearest million. All figures relate to the half year ended 31 December 2011 and comparatives are for the half year ended 31 December 2010 unless otherwise stated.

The Group's results are analysed by business lines: General Insurance, Bank and Life. The Bank is further disaggregated into Core and Non-core Bank to allow separate analysis given their unique lending profiles. The Core and Non-core Bank results are presented separately in this report, with the consolidated result available in Appendix 8. The Core and Non-core banking tables represent an indicative view of relative performance. Whilst every effort has been made to ensure that the tables are as accurate as possible, necessary assumptions around the allocation of funding and expenses has been made.

This report has not been audited nor reviewed in accordance with Australian Auditing Standards. It should be read in conjunction with the Suncorp Group's consolidated annual and interim financial reports which have been either audited or reviewed in accordance with Australian Auditing Standards.

This report should be read in conjunction with the definitions in Appendix 9.

# Disclaimer

This report contains general information which is current as at 22 February 2012. It is information given in summary form and does not purport to be complete.

It is not a recommendation or advice in relation to the Suncorp Group or any product or service offered by Suncorp or any of its subsidiaries. It is not intended to be relied upon as advice to investors or potential investors, and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice, when deciding if an investment is appropriate.

This report should be read in conjunction with all other information concerning Suncorp filed with the Australian Securities Exchange.

The information in this report is for general information only. To the extent that the information may constitute forward-looking statements, the information reflects Suncorp's intent, belief or current expectations with respect to our business and operations, market conditions, results of operations and financial condition, capital adequacy, specific provisions and risk management practices at the date of this report. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks and uncertainties, many of which are beyond Suncorp's control, which may cause actual results to differ materially from those expressed or implied.

Suncorp undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date of this report (subject to stock exchange disclosure requirements).

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- Group balance sheet strengthened
- Non-Operating Holding Company (NOHC) structure providing improved capital transparency
- Credit ratings of 'A+/A1' retained
- Building block programs improving margins and offsetting increased reinsurance costs
- Further Group-wide simplification program underway
- Life legal entity consolidation as part of the Group-wide simplification program
- Disposal of non-strategic property assets – Suncorp Centre and Polaris Data Centre

## Financial Results Summary

- Group net profit after tax (NPAT) of $389 million
- Profit after tax from business lines* of $397 million
- General Insurance NPAT of $162 million, impacted by Melbourne hail storm, increased reinsurance costs, reduced reserve releases and falling interest rates
- Reported Insurance Trading Result* of $129 million representing an Insurance Trading Ratio (ITR) of 3.8%
- Underlying ITR* of 11.1% (FY11: 10.8%)
- Gross Written Premium up 8.2% to $3,855 million for the six months
- Combined Bank NPAT of $102 million
- Core Bank NPAT of $156 million, with net interest margin of 1.91%
- Non-core Bank loss after tax of $54 million, with portfolio balance reducing to $5.7 billion
- Suncorp Life NPAT of $133 million including underlying profit* of $69 million
- Suncorp Life Embedded Value of $2,465 million
- Group operating expense base reduced by 4.6%
- Capital levels remain strong with the General Insurance Group MCR coverage at 1.69 times, Bank Net Tier 1 ratio at 9.87% and $633 million of core capital held at the NOHC level
- Capital of $1,182 million surplus to operating targets
- Interim dividend of 20 cents per share, fully franked

* Refer to Appendix 4 for Underlying ITR and Appendix 9 for definition of Life underlying profit, Profit after tax from business lines and Insurance trading result

## Suncorp Group

The financial impact of natural hazards and their very human consequences is the business of Suncorp. Through its 15,000+ employees, Suncorp strives to make a significant contribution to all its stakeholders. This contribution may be difficult to quantify but goes well beyond the financial metrics contained in this report.

Over the past 18 months, more than $4.5 billion has been spent rebuilding the lives of customers devastated by natural disasters in Australia and New Zealand. The Group's leadership in product innovation and efficient claims management has enabled local and regional communities to return to productive capacity in a shorter timeframe than would otherwise be the case. Importantly, private assets have been replaced and livelihoods restored without recourse to public funds. The value of the Group is represented through its various businesses, brands and employees, who continue to strive to deliver outcomes for customers and shareholders alike.

### Result overview

In the half year to 31 December 2011, the Group demonstrated its ability to withstand numerous external challenges, including a weak domestic economy, volatile investment markets, ongoing natural hazard events and increased reinsurance costs. Despite these challenges, each of the businesses achieved top line growth while maintaining tight cost control.

The **profit after tax from business lines** is $397 million, up 11%. After adjusting for amortisation of intangibles and profit from the disposal of corporate buildings, the Group's **net profit after tax** is $389 million. The increased profit result, combined with the Group's robust capital position, has allowed the Board to declare an increased **interim dividend of 20 cents per share, fully franked**.

Cash earnings per share[(1)], which forms the basis of the Group’s dividend payout calculation, is 34.13 cents. The interim dividend represents a payout ratio of 58.6%, within the Group's target payout ratio of 50% to 70%.

Volatile investment markets had a significant impact on the Group’s businesses during the half year. The three-year Government Bond rate fell from 4.80% to 3.15%, credit spreads widened and equity markets have declined by approximately 15%. The conservative nature of Suncorp's investment portfolios has limited the impact of these movements. For example, the decline in the risk-free rate causes a negative impact on the Group's General Insurance profitability but this is partially offset by gains for Suncorp Life.

The Group's capital position remains healthy, with in excess of $1 billion identified as surplus to Group targets. This is despite the Group paying down a further $221 million in subordinated debt and repurchasing $72 million of reset preference shares during the half. The Group places a priority on balance sheet management and ensuring the Group is well positioned to deal with regulatory and economic uncertainty.

The **General Insurance** profit after tax was $162 million. This result was impacted by the Christmas Day hailstorm in Melbourne and consequently, natural hazard claims were $149 million above allowances. Other headwinds include the impact of falling interest rates as well as increased reinsurance costs as a result of catastrophic events in 2011. Despite this, the business has demonstrated the capacity to improve underlying margins by implementing targeted price increases and focusing on cost control. As a result, the underlying margin for the half of 11.1% is an increase on the prior corresponding period underlying margin of 10.5%.

Gross Written Premium increased 8.2% to $3,855 million for the half. The Personal Insurance lines benefited from significant price increases following increased reinsurance costs and improved risk-based pricing via the General Insurance Pricing Engine (GIPE). The positive response to the Suncorp brand following the January 2011 events has delivered significant commercial returns across home and motor with new business and retention increasing despite price rises and more targeted risk selection.

(1) Refer to Appendix 9 for the definition of Cash Earnings.

The Commercial Insurance business has increased its pricing and maintained risk discipline during a period of intense competition. The business has continued to invest in its distribution, fulfilment and service capability which are all core to its strategy of growing market share at acceptable margins. In statutory classes, falling bond rates have impacted profitability and this is being increasingly recognised by scheme regulators.

**Suncorp Bank** significantly improved its profit after tax to $102 million for the half year.

In the Core Bank, profit after tax was $156 million. The Core Bank continues to position itself as the genuine alternative to the Majors with a growing direct footprint and improved broker flows. Growth has rebounded following the Queensland floods and cyclones and above system volumes are expected to continue into 2012.

The Core Bank margin has declined slightly during the half due to the intense competition for retail deposits. The deposit to loan ratio remains at the top end of the target range of 60% to 70%, and Suncorp Group's 'A+' credit rating provides a diversity of alternative funding sources. The Core Bank's cost-to-income ratio has improved and credit quality remains strong with both impairment losses and impaired assets declining.

The Non-core Bank incurred a loss after tax of $54 million. The run-off of the portfolio continued to progress ahead of expectations with total lending reducing to $5.7 billion. Global and domestic economic volatility has impacted the refinance market and this has slowed the expected run-off profile. Additionally, the expectation of longer workout timeframes across the impaired portfolio and a reduction in some security values has resulted in impairment losses of $122 million.

**Suncorp Life** has continued to execute its strategy of leveraging the Group's assets to drive direct sales volumes with Life direct sales increasing by 36%. Profit after tax was $133 million comprising underlying profit of $69 million and market adjustments of $64 million following the fall in risk-free discount rates. The result continues to reflect the impact of higher than expected claims costs and policy lapses. Adjusting for the impact of the divested business in the prior corresponding period, underlying profit increased by 15%.

## Outlook

The Group expects global uncertainty and a subdued domestic economy will continue to impact each business.

In General Insurance, the underlying margin for the half year of 11.1% has been achieved despite the significant impact of increased reinsurance costs and reduced investment yields.

The building block initiatives, including the single pricing and claims processes, have protected the business from the worst calendar year for natural hazard claims on record. Pricing and claims benefits will continue to be realised into the second half and through the 2013 financial year. In addition, further pricing increases have been implemented across short and long tail classes in anticipation of further increases in natural hazard allowances and sustained lower interest rates.

Accordingly, the Group expects to achieve an underlying ITR of at least 12% for the second half of the 2012 financial year and will then seek to maintain this margin going forward. A continuation of reduced investment yields may impact on the Group's ability to deliver an underlying ITR of at least 12% on a full year basis for the 2012 financial year.

The Core Bank has revamped its product offering and, combined with a rebound in Queensland lending, should see asset growth in the target range of 1 to 1.3 times system. The Core Bank benefits from the 'A+/A1' credit rating and has little reliance on expensive offshore markets, mitigating increased funding costs relative to competitors. However, increasing competition in retail funding is likely to put pressure on net interest margins across the industry.

In the Non-core Bank, a lack of confidence in investment markets is expected to limit refinance opportunities, particularly for impaired assets, thereby extending workout periods. The Bank will continue to manage the run-off in order to maximise the quantum of capital distributable to the Group.

Suncorp Life will continue to unlock the value of the Group's customer base by driving growth in low capital intensive direct products, in combination with a continued focus on IFA growth. The extent of growth across the Life business will be challenged by low domestic growth and tight household budgets.

The Group's strong balance sheet and capital position mean it is well placed should there be any further deterioration in the global economy or additional capital requirements imposed by regulators. While capital levels remain above what the Group considers necessary to address these uncertainties, it has decided to maintain a conservative approach to its capital position. This will be reviewed at the full year.

The Group is continuing to transform and simplify its business. While the initial focus has been on establishing the necessary building blocks, further Group-wide simplification programs have been identified and are in the process of being implemented. These include:

- further legal entity consolidation, including pursuing a single general insurance license;
- decommissioning legacy platforms and systems;
- moving more of the Group's expense base onto a variable basis by utilising partners for activities that are not core, strategic or competitively differentiating; and
- Group-wide simplification through a program of operational excellence.

The Group will also continue to capitalise on the benefits of having general insurance, life insurance and banking operations. These are known as the four Cs – Customers, Cost, Capital, and Culture. Collectively, these demonstrate Suncorp Group is more valuable than the sum of its individual businesses.

- Customers – enhancing the value of 9 million customer connections by deepening relationships with brands.
- Cost – exploiting the benefits of scale without diminishing the differentiation of brands in the eyes of customers.
- Capital – leveraging the diversity and capital return of each business for the benefit of the entire Group.
- Culture – building common elements of culture that underpin 'One Company, Many Brands' and positioning Suncorp as the place to work in Australia and New Zealand.

An update on these programs, including an assessment of the benefits expected to be realised from simplification, will be provided at the Group's strategy day on 29 May 2012.

## Contribution to profit by division

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **General Insurance** | | | | | |
| Gross written premium | 3,855 | 3,717 | 3,563 | 3.7 | 8.2 |
| Net earned premium | 3,359 | 3,011 | 3,266 | 11.6 | 2.8 |
| Net incurred claims | (2,820) | (2,466) | (2,284) | 14.4 | 23.5 |
| Operating expenses | (783) | (828) | (795) | (5.4) | (1.5) |
| Investment income - insurance funds | 373 | 339 | 169 | 10.0 | 120.7 |
| Insurance trading result | 129 | 56 | 356 | 130.4 | (63.8) |
| Managed schemes net income | 2 | 15 | 3 | (86.7) | (33.3) |
| Joint venture and other income | 6 | 4 | 12 | 50.0 | (50.0) |
| Investment income - shareholder funds | 126 | 119 | 87 | 5.9 | 44.8 |
| Profit before tax and capital funding | 263 | 194 | 458 | 35.6 | (42.6) |
| Capital funding | (37) | (46) | (43) | (19.6) | (14.0) |
| Profit before tax | 226 | 148 | 415 | 52.7 | (45.5) |
| Income tax | (64) | (48) | (123) | 33.3 | (48.0) |
| **General Insurance profit after tax** | **162** | **100** | **292** | **62.0** | **(44.5)** |
| **Banking** | | | | | |
| Core Bank profit after tax | 156 | 149 | 110 | 4.7 | 41.8 |
| Non-core Bank profit/(loss) after tax | (54) | (68) | (107) | (20.6) | (49.5) |
| **Total Bank profit after tax** | **102** | **81** | **3** | **25.9** | **large** |
| **Life** | | | | | |
| Underlying profit after tax | 69 | 76 | 71 | (9.2) | (2.8) |
| Market adjustments after tax | 64 | 12 | (10) | 433.3 | n/a |
| **Life profit after tax** | **133** | **88** | **61** | **51.1** | **118.0** |
| **Profit after tax from business lines** | **397** | **269** | **356** | 47.6 | 11.5 |
| **Other** | | | | | |
| Investment income on capital held at Group level | 18 | 18 | - | - | n/a |
| Consolidation adjustments [(1)] | 6 | 6 | 5 | - | 20.0 |
| Brisbane property consolidation[(2)] | 21 | - | - | n/a | n/a |
| Non-controlling interests | (1) | - | (4) | n/a | (75.0) |
| Other and non-controlling interest profit/(loss) before tax | 44 | 24 | 1 | 83.3 | large |
| Income tax | (5) | (10) | (4) | (50.0) | 25.0 |
| **Profit/(loss) on Other** | 39 | 14 | (3) | 178.6 | n/a |
| **Cash earnings** | **436** | **283** | **353** | **54.1** | **23.5** |
| **Divestments and acquisition amortisation** | | | | | |
| Sale of subsidiaries and investment in joint ventures [(3)] | - | (3) | (106) | (100.0) | (100.0) |
| Amortisation of acquisition intangible assets | (64) | (73) | (76) | (12.3) | (15.8) |
| Divestments and acquisition amortisation profit/(loss) before tax | (64) | (76) | (182) | (15.8) | (64.8) |
| Income tax [(4)] | 17 | 23 | 52 | (26.1) | (67.3) |
| **Profit/(loss) on divestments and acquisition amortisation** | **(47)** | **(53)** | **(130)** | **(11.3)** | **(63.8)** |
| **Net profit after tax** | **389** | **230** | **223** | **69.1** | **74.4** |

(1) Represents elimination of Group transactions including intra-group investments and transactions between lines of business.

(2) Includes the gain before tax on the sale of the Suncorp Centre in the half year to 31 December 2011.

(3) Includes the loss before tax on the sale of Tyndall and New Zealand Guardian Trust (NZGT) of $3 million in the half year to 30 June 2011, $106 million in the half year to 31 December 2010.

(4) Includes $1 million tax credit associated with Tyndall and NZGT in the half year to December 2011.

## Statement of financial position

| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 1,231 | 1,271 | 1,496 | (3.1) | (17.7) |
| Receivables due from other banks | 159 | 226 | 91 | (29.6) | 74.7 |
| Trading securities | 3,641 | 4,952 | 4,868 | (26.5) | (25.2) |
| Derivatives | 291 | 166 | 376 | 75.3 | (22.6) |
| Investment securities | 24,775 | 24,014 | 23,969 | 3.2 | 3.4 |
| Assets classified as held for sale | - | - | 118 | n/a | (100.0) |
| Banking loans, advances and other receivables | 47,739 | 48,639 | 50,351 | (1.9) | (5.2) |
| General Insurance assets | 7,247 | 8,054 | 4,506 | (10.0) | 60.8 |
| Life assets | 586 | 671 | 538 | (12.7) | 8.9 |
| Property, plant and equipment | 230 | 351 | 337 | (34.5) | (31.8) |
| Deferred tax assets | 94 | 148 | 170 | (36.5) | (44.7) |
| Other assets | 717 | 686 | 668 | 4.5 | 7.3 |
| Goodwill and intangible assets | 6,295 | 6,310 | 6,368 | (0.2) | (1.1) |
| **Total assets** | 93,005 | 95,488 | 93,856 | (2.6) | (0.9) |
| **Liabilities** | | | | | |
| Deposits and short-term borrowings | 38,774 | 38,858 | 36,855 | (0.2) | 5.2 |
| Derivatives | 2,105 | 2,580 | 3,266 | (18.4) | (35.5) |
| Payables due to other banks | 26 | 31 | 18 | (16.1) | 44.4 |
| Payables and other liabilities | 1,752 | 2,224 | 1,528 | (21.2) | 14.7 |
| Current tax liabilities | 7 | 145 | 171 | (95.2) | (95.9) |
| Liabilities classified as held for sale | - | - | 12 | n/a | (100.0) |
| General Insurance liabilities | 14,956 | 14,831 | 11,866 | 0.8 | 26.0 |
| Life liabilities | 5,770 | 6,183 | 6,268 | (6.7) | (7.9) |
| Deferred tax liabilities | - | - | 3 | n/a | (100.0) |
| Managed funds unit on issue | 365 | 701 | 581 | (47.9) | (37.2) |
| Securitisation liabilities | 4,313 | 3,532 | 4,011 | 22.1 | 7.5 |
| Debt issues | 8,676 | 10,031 | 12,680 | (13.5) | (31.6) |
| Subordinated notes | 1,368 | 1,524 | 1,814 | (10.2) | (24.6) |
| Preference shares | 760 | 830 | 871 | (8.4) | (12.7) |
| **Total liabilities** | 78,872 | 81,470 | 79,944 | (3.2) | (1.3) |
| **Net assets** | 14,133 | 14,018 | 13,912 | 0.8 | 1.6 |
| **Equity** | | | | | |
| Share capital | 12,665 | 12,662 | 12,614 | 0.0 | 0.4 |
| Reserves | 36 | 33 | 4 | 9.1 | large |
| Retained profits | 1,420 | 1,306 | 1,273 | 8.7 | 11.5 |
| **Total equity attributable to owners of the Company** | 14,121 | 14,001 | 13,891 | 0.9 | 1.7 |
| Non-controlling interests | 12 | 17 | 21 | (29.4) | (42.9) |
| **Total equity** | 14,133 | 14,018 | 13,912 | 0.8 | 1.6 |

## Ratios and statistics

| | | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|---|
| | | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | | | | | % | % |
| **Performance ratios** | | | | | | |
| Earnings per share [1] | | | | | | |
| Basic | (cents) | 30.45 | 18.05 | 17.51 | 68.7 | 73.9 |
| Diluted | (cents) | 30.03 | 18.05 | 17.51 | 66.4 | 71.5 |
| Cash earnings per share [1] | | | | | | |
| Basic | (cents) | 34.13 | 22.22 | 27.71 | 53.6 | 23.2 |
| Diluted | (cents) | 33.47 | 22.22 | 27.71 | 50.6 | 20.8 |
| Return on average shareholders' equity [1] | (%) | 5.5 | 3.3 | 3.2 | | |
| Cash return on average shareholders' equity [3] | (%) | 6.2 | 4.1 | 5.0 | | |
| Return on average total assets | (%) | 0.82 | 0.49 | 0.47 | | |
| Insurance trading ratio | (%) | 3.8 | 1.9 | 10.9 | | |
| Underlying insurance trading ratio | (%) | 11.1 | 11.2 | 10.5 | | |
| Core Bank net interest margin (interest earning assets) | (%) | 1.91 | 1.97 | 1.83 | | |
| **Shareholder summary** | | | | | | |
| Dividend per ordinary share | (cents) | 20.0 | 20.0 | 15.0 | - | 33.3 |
| Payout ratio [3] | | | | | | |
| Net profit after tax | (%) | 65.7 | 111.1 | 85.6 | | |
| Cash earnings | (%) | 58.6 | 90.2 | 54.1 | | |
| Weighted average number of shares | | | | | | |
| Basic | (million) | 1,277.4 | 1,274.8 | 1,272.7 | 0.2 | 0.4 |
| Diluted | (million) | 1,365.3 | 1,274.8 | 1,272.7 | 7.1 | 7.3 |
| Number of shares at end of period | (million) | 1,277.4 | 1,277.4 | 1,272.2 | - | 0.4 |
| Net tangible asset backing per share | ($) | 6.14 | 6.03 | 5.93 | 1.8 | 3.5 |
| Share price at end of period | ($) | 8.38 | 8.14 | 8.61 | 2.9 | (2.7) |
| **Productivity** | | | | | | |
| Core Bank cost to income ratio | (%) | 51.7 | 52.0 | 53.0 | | |
| General Insurance expense ratio | (%) | 23.3 | 27.5 | 24.4 | | |
| **Financial position** | | | | | | |
| Total assets | ($ million) | 93,005 | 95,488 | 93,856 | (2.6) | (0.9) |
| Net assets | ($ million) | 14,133 | 14,018 | 13,912 | 0.8 | 1.6 |
| **Capital** [2] | | | | | | |
| Bank capital adequacy ratio - Total | (%) | 13.09 | 13.40 | 14.20 | | |
| Bank capital adequacy ratio - Net Tier 1 | (%) | 9.87 | 9.58 | 13.74 | | |
| General Insurance Group MCR coverage | (times) | 1.69 | 1.67 | 2.06 | | |
| Suncorp Life capital | ($ million) | 1,890 | 1,763 | 1,685 | 7.2 | 12.2 |
| Additional capital held by Suncorp Group Limited | ($ million) | 633 | 698 | n/a | (9.3) | - |

(1) Refer Appendix 2 for details of earnings per share and return on average shareholders' equity calculations. Refer Appendix 9 for definitions.

(2) Capital ratios for Dec-10 reflect the pre-NOHC position. Following the transition to the NOHC, some capital previously held within the Bank and General Insurance Group is now held at the NOHC level.

(3) Refer to Appendix 9 for definitions.

## Group capital

Suncorp implemented a Non-Operating Holding Company (NOHC) structure in January 2011 to improve the transparency of its capital management.

Based on the NOHC structure, the internal capital targets of Suncorp's businesses have been revised and the Group holding company, Suncorp Group Limited (SGL) will also hold some of the capital to meet these internal targets. For example, the General Insurance capital target is 1.45 times the Minimum Capital Requirement (MCR) and an amount of capital equivalent to 0.05 times the MCR is included in the target capital base of SGL, bringing the total Suncorp Group target to 1.50 times the MCR. Additionally, SGL will hold capital for risks associated with the service companies.

The quality of the Group's capital has improved due to solid earnings, divestments, Non-core Bank run-off and the repayment of some hybrid capital. Offsetting these capital benefits as a result of the strong growth in the Life business and the impact of falling discount rates, the Life target capital base has increased by $236 million. Additionally, the NOHC target capital base has been reduced by 0.5% of the Bank's target capital.

Given the strength of the capital position, the Group has:

- redeemed $221 million of subordinated debt in October 2011;
- exchanged $72 million of Reset Preference Shares for cash consideration in September 2011;
- declared an interim dividend of 20 cents per share, representing a payout ratio of 58.6%; and
- maintained a zero discount on the Dividend Reinvestment Plan (DRP) and neutralised the impact of the DRP by buying shares on-market.

At 31 December 2011, on a regulated entity basis, the Bank's Capital Adequacy Ratio (CAR) is 13.1% and the core equity tier 1 ratio has increased to 7.48%. In the General Insurance (GI) regulated entities, domestic capital is 1.67 times MCR and for the GI Group it is 1.69 times the MCR. Additionally, following the proposed interim dividend, $633 million of capital is held by SGL and the consolidated group.

Based on current operating targets, the Group holds surplus capital of around $1,182 million. The Group continues to believe it is prudent to retain a capital buffer while global and domestic economic uncertainties remain and the review of Life and General Insurance Capital (LAGIC) requirements is ongoing. The Group's strong balance sheet and capital position mean it is well placed to meet these challenges. The Group remains committed to returning to shareholders any excess capital that is not required to support the businesses.

The table below is a summary of the capital position at 31 December 2011. Detailed tables are shown at Appendix 3.

| | GENERAL INSURANCE $M | BANKING $M | LIFE $M | SGL, CORP SERVICES & CONSOL $M | TOTAL $M |
|---|---|---|---|---|---|
| **Total capital base** | 3,568 | 4,358 | 1,890 | 633 | 10,449 |
| **Target capital base** | 3,055 | 4,098 | 1,922 | 192 | 9,267 |
| **Surplus (deficit) capital to target** | **513** | **260** | **(32)** | **441** | **1,182** |

## Dividends

The interim dividend of 20 cents per share fully franked will be paid on 2 April 2012. The ex-dividend date is 27 February 2012 and the record date for determining entitlements to the dividend is 2 March 2012.

| | HALF YEAR ENDED | | |
|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 |
| | $M | $M | $M |
| **Franking credits** | | | |
| Franking credits available for subsequent financial years based on a tax rate of 30% after proposed dividend | **611** | **630** | **636** |

## Income tax

| | DEC-11 | JUN-11 | DEC-10 |
|---|---|---|---|
| | $M | $M | $M |
| **Profit before income tax expense** | 506 | 338 | 364 |
| Income tax using the domestic corporation tax rate of 30% | 152 | 102 | 109 |
| Increase in income tax expense due to: | | | |
| Effect of tax rates in foreign jurisdictions | (1) | - | - |
| Non-deductible expenses | 7 | 5 | 10 |
| Imputation gross-up on dividends received | 2 | 10 | 1 |
| Statutory funds | (8) | (7) | 17 |
| Income tax offsets and credits | (6) | (35) | (2) |
| Amortisation of acquisition intangible assets | 3 | 3 | 4 |
| Other | (22) | 7 | - |
| | 127 | 85 | 139 |
| (Over)/under provision in prior years | (11) | 23 | (2) |
| **Income tax expense on pre-tax net profit** | **116** | **108** | **137** |
| **Effective tax rate** | **22.9%** | **32.0%** | **37.6%** |
| **Income tax expense/(benefit) by business unit** | | | |
| General Insurance | 64 | 48 | 123 |
| Banking | 36 | 48 | 13 |
| Life | 28 | 25 | 49 |
| Other | (12) | (13) | (48) |
| **Total income tax expense** | 116 | 108 | 137 |

The effective tax rate of 22.9% is due to the following adjustments:

- Non-deductible interest paid on the convertible preference shares of $6 million and reset preference shares of $1 million;
- Income tax credits arising from non-taxable profits on disposal of Suncorp Centre of $9 million and deferred tax credit adjustment of $12 million for the disposal of the Polaris Data Centre joint venture asset;
- The life insurance statutory funds adjustment resulted in an $8 million income tax credit.

# General Insurance

## Basis of preparation

Financial information in this section includes the impact of both fire service levies (FSL) and discount rate movements. These impacts are eliminated in the General Insurance profit contribution table in Appendix 7. Appendices 4 to 7 contain supplementary General Insurance tables including the underlying ITR calculation.

## Result overview

General Insurance recorded an after tax profit of $162 million for the six months to 31 December 2011.

The Insurance Trading Result (ITR) was $129 million, representing an ITR ratio of 3.8%. The headline ITR has reduced due to adverse natural hazard claims, lower reserve releases and the impact of falling interest rates. On an underlying basis, the ITR ratio was 11.1%.

Gross Written Premium (GWP) increased 8.2% to $3,855 million.

Personal lines experienced growth across both Home (up 15.9%) and Motor (up 1.7%). Home premium rates have increased due to ongoing adverse natural hazard experience and higher reinsurance costs.

Commercial Insurance GWP increased 9.3% and Compulsory Third Party (CTP) GWP increased 0.9%.

Net incurred claims were $2.8 billion. Short-tail claims expenses were impacted by a number of major weather events, resulting in net natural hazard claims being $149 million above the Group's allowance. Net reserve releases of $54 million are broadly in line with the expectation of 1.5% of net earned premium and related to favourable claims experience in long-tail classes partially offset by some short-tail strengthening.

Total operating expenses reduced to $783 million. Acquisition expenses reduced by $13 million and other underwriting expenses increased by $1 million. As a result of the increase in net earned premiums and the tight control of expenses, the total operating expense ratio has decreased to 23.3% from 24.4%.

Investment income on insurance funds was $373 million. This included a loss of $160 million from the widening of credit spreads and mark-to-market losses on index-linked bonds.

Investment returns from shareholder funds was $126 million.

Joint ventures and other income contributed $6 million.

New Zealand contributed an Insurance Trading Result of $13 million. In NZ$ terms, GWP increased 20.6%; however the benefit of this was offset by a significant increase in reinsurance costs. The result included A$28 million of reduced amortisation of deferred acquisition costs relating to the A$35 million liability adequacy test charge at 30 June 2011. Risk margins were increased by $38 million due to the potential exposure to increased claims costs arising from the February 2011 earthquake.

## Profit contribution

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Gross written premium** | 3,855 | 3,717 | 3,563 | 3.7 | 8.2 |
| Gross unearned premium movement | (128) | (181) | (16) | (29.3) | large |
| Gross earned premium | 3,727 | 3,536 | 3,547 | 5.4 | 5.1 |
| Outwards reinsurance expense | (368) | (525) | (281) | (29.9) | 31.0 |
| **Net earned premium** | 3,359 | 3,011 | 3,266 | 11.6 | 2.8 |
| **Net incurred claims** | | | | | |
| Claims expense | (3,871) | (6,287) | (3,044) | (38.4) | 27.2 |
| Reinsurance and other recoveries revenue | 1,051 | 3,821 | 760 | (72.5) | 38.3 |
| | (2,820) | (2,466) | (2,284) | 14.4 | 23.5 |
| **Total operating expenses** | | | | | |
| Acquisition expenses [(1)] | (434) | (465) | (447) | (6.7) | (2.9) |
| Other underwriting expenses [(1)] | (349) | (363) | (348) | (3.9) | 0.3 |
| | (783) | (828) | (795) | (5.4) | (1.5) |
| **Underwriting result** | (244) | (283) | 187 | (13.8) | n/a |
| Investment income - insurance funds | 373 | 339 | 169 | 10.0 | 120.7 |
| **Insurance trading result** | 129 | 56 | 356 | 130.4 | (63.8) |
| Managed schemes net contribution | 2 | 15 | 3 | (86.7) | (33.3) |
| Joint venture and other income | 6 | 4 | 12 | 50.0 | (50.0) |
| **General Insurance operational earnings** | 137 | 75 | 371 | 82.7 | (63.1) |
| Investment income - shareholder funds | 126 | 119 | 87 | 5.9 | 44.8 |
| **General Insurance profit before tax and capital funding** | 263 | 194 | 458 | 35.6 | (42.6) |
| Capital funding [(2)] | (37) | (46) | (43) | (19.6) | (14.0) |
| **General Insurance profit before tax** | 226 | 148 | 415 | 52.7 | (45.5) |
| **Income tax** | (64) | (48) | (123) | 33.3 | (48.0) |
| **General Insurance profit after tax** | **162** | **100** | **292** | **62.0** | **(44.5)** |

(1) Comparative information has been restated to be consistent with the current treatment of expense disclosures between acquisition costs and underwritten expenses.

(2) Includes interest expense on subordinated notes.

## General insurance ratios

| | HALF YEAR ENDED | | |
|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 |
| | % | % | % |
| Acquisition expenses ratio | 12.9 | 15.4 | 13.7 |
| Other underwriting expenses ratio | 10.4 | 12.1 | 10.7 |
| Total operating expenses ratio | 23.3 | 27.5 | 24.4 |
| Loss ratio | 84.0 | 81.9 | 69.9 |
| Combined operating ratio | 107.3 | 109.4 | 94.3 |
| **Insurance trading ratio** | **3.8** | **1.9** | **10.9** |

## Statement of assets and liabilities

| | DEC-11 | JUN-11 | DEC-10 | DEC-11 vs JUN-11 | DEC-11 vs DEC-10 |
|---|---|---|---|---|---|
| | $M | $M | $M | % | % |
| **Assets** | | | | | |
| Cash and cash equivalents | 88 | 195 | 167 | (54.9) | (47.3) |
| Investment securities | 11,098 | 10,782 | 11,259 | 2.9 | (1.4) |
| Derivatives | 40 | 23 | 15 | 73.9 | 166.7 |
| Loans, advances and other receivables | 2,055 | 2,256 | 1,792 | (8.9) | 14.7 |
| Reinsurance and other recoveries | 4,159 | 4,660 | 1,824 | (10.8) | 128.0 |
| Deferred insurance assets | 1,033 | 1,138 | 898 | (9.2) | 15.0 |
| Investments in associates and joint ventures | 57 | 58 | 57 | (1.7) | - |
| Due from subsidiaries | 222 | - | 7 | n/a | large |
| Investment property | 126 | 137 | 146 | (8.0) | (13.7) |
| Property, plant and equipment | 20 | 18 | 37 | 11.1 | (45.9) |
| Other assets | 178 | 148 | 146 | 20.3 | 21.9 |
| Goodwill and intangible assets [1] | 5,256 | 5,268 | 5,318 | (0.2) | (1.2) |
| Total assets | 24,332 | 24,683 | 21,666 | (1.4) | 12.3 |
| **Liabilities** | | | | | |
| Payables and other liabilities | 685 | 1,045 | 711 | (34.4) | (3.7) |
| Derivatives | 110 | 90 | 107 | 22.2 | 2.8 |
| Due to subsidiaries | - | 167 | - | (100.0) | n/a |
| Deferred tax liabilities | 126 | 81 | 50 | 55.6 | 152.0 |
| Employee benefit obligations | 101 | 107 | 106 | (5.6) | (4.7) |
| Unearned premium liabilities | 3,972 | 3,854 | 3,665 | 3.1 | 8.4 |
| Outstanding claims liabilities | 10,984 | 10,977 | 8,200 | 0.1 | 34.0 |
| Other financial liabilities | 15 | 6 | 17 | 150.0 | (11.8) |
| Subordinated notes | 698 | 678 | 655 | 2.9 | 6.6 |
| Total liabilities | 16,691 | 17,005 | 13,511 | (1.8) | 23.5 |
| **Net assets** | **7,641** | **7,678** | **8,155** | **(0.5)** | **(6.3)** |

(1) Goodwill and intangible balances for December 2010 has been restated following the NOHC restructure to present goodwill on a post allocation to Cash Generating Unit (CGU) basis.

## Gross written premium

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Gross written premium by product** | | | | | |
| **Australia** | | | | | |
| Motor | 1,206 | 1,226 | 1,192 | (1.6) | 1.2 |
| Home | 993 | 895 | 861 | 10.9 | 15.3 |
| Commercial | 704 | 642 | 670 | 9.7 | 5.1 |
| Compulsory third party | 432 | 436 | 428 | (0.9) | 0.9 |
| Workers' Compensation and Other | 106 | 177 | 70 | (40.1) | 51.4 |
| | **3,441** | **3,376** | **3,221** | **1.9** | **6.8** |
| **New Zealand** | | | | | |
| Motor | 78 | 70 | 70 | 11.4 | 11.4 |
| Home | 100 | 86 | 82 | 16.3 | 22.0 |
| Commercial | 214 | 159 | 170 | 34.6 | 25.9 |
| Other | 22 | 26 | 20 | (15.4) | 10.0 |
| | **414** | **341** | **342** | **21.4** | **21.1** |
| **Total** | | | | | |
| Motor | 1,284 | 1,296 | 1,262 | (0.9) | 1.7 |
| Home | 1,093 | 981 | 943 | 11.4 | 15.9 |
| Commercial | 918 | 801 | 840 | 14.6 | 9.3 |
| Compulsory third party | 432 | 436 | 428 | (0.9) | 0.9 |
| Workers' Compensation and Other | 128 | 203 | 90 | (36.9) | 42.2 |
| | **3,855** | **3,717** | **3,563** | **3.7** | **8.2** |

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Gross written premium by geography** | | | | | |
| Queensland | 1,004 | 973 | 928 | 3.2 | 8.2 |
| New South Wales | 1,189 | 1,151 | 1,153 | 3.3 | 3.1 |
| Victoria | 790 | 744 | 742 | 6.2 | 6.5 |
| Western Australia | 240 | 285 | 197 | (15.8) | 21.8 |
| South Australia | 117 | 117 | 108 | - | 8.3 |
| Tasmania | 57 | 60 | 52 | (5.0) | 9.6 |
| Other | 44 | 46 | 41 | (4.3) | 7.3 |
| Total Australia | 3,441 | 3,376 | 3,221 | 1.9 | 6.8 |
| New Zealand | 414 | 341 | 342 | 21.4 | 21.1 |
| **Total** | **3,855** | **3,717** | **3,563** | **3.7** | **8.2** |

## Gross written premium (continued)

### Motor

Motor GWP increased by 1.7% to $1,284 million.

In Australia, a competitive market and a focus on margins resulted in a fall in net written units of 1.4%. Average written premium increased 2.6%. The pricing leadership taken by Suncorp had a short term impact on retention, however, both new business and retention rate momentum has recently improved as competitors increase their prices.

GWP growth in Suncorp's online brand Bingle, continued to grow significantly.

New Zealand increased GWP by 11.4% or 10.0% in NZ$ terms, predominantly as a result of new business growth in AA Insurance and new business through the ANZI distribution channel.

### Home

Home GWP increased by 15.9% to $1,093 million.

In Australia, growth of 15.3% was achieved. Average written premium rose 16.7%, predominantly in response to natural hazard events and increased reinsurance costs. Price increases were targeted to support improved risk selection across the home portfolio and resulted in a reduction in net written units of 1.4%.

Suncorp experienced good growth as its capability to respond to various natural hazard events, and, in particular, the automatic flood cover offering, resulted in strong customer demand. Unit growth was predominantly within lower flood risk segments.

New Zealand has shown growth, up 22%, or 23.1% in NZ$ terms, as a result of rate increases driven by additional reinsurance costs as well as new business through the ANZI distribution channel.

### Commercial Insurance

Commercial Insurance GWP increased by 9.3% to $918 million.

Higher reinsurance costs have seen price increases for most commercial lines, with the largest increases being seen in property, with low double digit rate increases. Some lines, including SME, continue to be challenging due to competition from other insurers and the economic environment with customers exploring ways to reduce costs.

New Zealand GWP increased 25.9% or 26.4% in NZ$ terms, as a result of rate increases, predominantly in corporate property, resulting from additional reinsurance costs.

### Compulsory Third Party (CTP)

CTP GWP increased 0.9% to $432 million.

Suncorp continues to be the leading CTP insurance provider in Queensland with over 50% market share. Market dynamics continue to impact new business sales, however, volumes remain strong, predominantly due to solid retention rates on the back of direct marketing activities and brand goodwill. Net written units increased 3.6%, with renewals partially offset by lower new business sales. Overall GWP has increased by 0.2% as a greater portion of customers have selected six-month policies resulting in a decrease in average premiums of 3.4%.

In New South Wales, Suncorp remains the second largest CTP provider, utilising a two-brand strategy and primarily focusing on attracting and retaining preferred risks. The first half has been a period of consolidation for the NSW CTP portfolio with improved risk selection again being the focus. GWP increased 2.2% for the half ending 31 December. Average written premiums increased 1.7% and net written units remained stable. Suncorp is well placed to grow market share and increase margins by leveraging a competitive price to good risks over the next 12 months.

## Workers' Compensation and Other

Workers' Compensation is underwritten by GIO in Western Australia, ACT, Tasmania and the Northern Territory and is predominantly written in the second half of the year.

Workers' Compensation increased to $92 million from $56 million, due mainly to wage adjustments from previous periods driven mainly by the resource sector and an uplift in new business. Western Australian gazette rates have marginally increased to account for an increase in claims costs due to changes in legislation. Despite a competitive market, Suncorp continues to maintain its underwriting discipline in this soft market.

'Other' premium income relates to direct travel insurance and Deposit Power products. Australian premiums stayed stable at $14 million and New Zealand premiums increased slightly to $22 million from $20 million.

## Reinsurance expense

Outwards reinsurance expense for the half year was $368 million, an increase of $87 million.

Reinsurance costs on Suncorp's property catastrophe program have increased significantly following the major natural hazard events in recent years. The Property Catastrophe treaty is the largest element of the Group's reinsurance program and covers home, motor and commercial property accounts against major catastrophes such as windstorm, flood, hail, bushfire and earthquake.

In the 2012 financial year, the upper limit on the property catastrophe program has increased from $5.6 billion to $5.8 billion and the retention has increased from $200 million to $250 million. For New Zealand risks, Suncorp shares a small portion of claims costs for events over A$2.5 billion.

In addition, the Group has purchased aggregate catastrophe reinsurance cover. It provides $200 million of protection and up to $90 million per event can be claimed. The cover applies to events over $10 million and has a retention of $250 million.

Reinsurance security was maintained for the 2012 financial year program, with over 85% of long-tail and short-tail businesses protected by reinsurers rated 'A+' or better.

| | MAXIMUM SINGLE RISK RETENTION | MAXIMUM EVENT RISK RETENTION |
|---|---|---|
| | DEC-11 | DEC-11 |
| | $M | $M |
| Property [1] | 10 | 250 |
| General liability | 10 | 10 |
| Global liability | 10 | 10 |
| Workers' compensation | 10 | 10 |
| CTP | 10 | 10 |
| Motor [1] | 10 | 250 |
| Professional Indemnity | 5 | 5 |
| Travel & Personal Accident | 5 | 5 |
| Marine | 3 | 3 |

(1) $250 million is the maximum retention. For Australian risk, these classes are also protected by the property aggregate treaty. Once the $250 million aggregate deductible is eroded, the aggregate program provides cover of $90 million per event with $200 million of total capacity. For New Zealand risks, additional protection has been purchased to reduce the maximum retention to NZ$50 million.

## Net incurred claims

Net claims costs increased 23.5% to $2.82 billion. A significant component of this increase, $281 million is due to the impact of falling discount rates.

A string of weather events across Australia, the most substantial of which was the hailstorm in Melbourne on Christmas Day, resulted in natural hazard event costs being $149 million above the long-run expectations.

Major natural hazard events for the half were as follows:

| DATE | EVENT | COSTS $M |
|---|---|---|
| Oct 2011 | South-east Queensland hail | 15 |
| Nov 2011 | NSW/VIC flooding | 16 |
| Dec 2011 | Christchurch earthquake | 10 |
| Dec 2011 | Melbourne hail [1] | 234 |
| | Other natural hazards attritional claims | 114 |
| **Total** | | 389 |
| **Less: allowance for natural hazards** | | (240) |
| **Natural hazard costs above allowance** | | 149 |

(1) Melbourne hail is the estimated cost at 31 December 2011 and is likely to change.

Suncorp’s building block programs, including SMART repair centres and improved procurement processes have helped mitigate claims inflation. Working loss claims in the New South Wales motor portfolio have deteriorated marginally due to the impact of new legislation dealing with repairable write-offs.

## Risk margins

Risk margins represent approximately 15% of outstanding claim reserves giving an approximate level of confidence of 90%.

Risk margins increased by $52 million to $1,032 million from $980 million primarily as a result of lower discount rates.

The assets notionally backing these reserves returned $74 million resulting in a net impact on the statutory ITR of $22 million for the half. In the underlying ITR calculation, shown at Appendix 4, the net impact of risk margins of $22 million is removed.

## Outstanding claims provisions over time

The following table shows the gross and net outstanding claims liabilities and their movement over time. The net outstanding claims liabilities are shown split between the net central estimate, the discount on net central estimate and the (90th percentile, discounted) risk margin components. The net outstanding claims liabilities are also shown by major class of insurance business.

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Gross outstanding claims liabilities | 10,984 | 10,977 | 8,200 | 0.1 | 34.0 |
| Reinsurance and other recoveries | (4,159) | (4,660) | (1,824) | (10.8) | 128.0 |
| **Net outstanding claims liabilities** | **6,825** | **6,317** | **6,376** | **8.0** | **7.0** |
| Expected future claims payments and claims handling expenses | 6,560 | 6,362 | 6,488 | 3.1 | 1.1 |
| Discount to present value | (767) | (1,025) | (1,074) | (25.2) | (28.6) |
| Risk margin | 1,032 | 980 | 962 | 5.3 | 7.3 |
| **Net outstanding claims liabilities** | **6,825** | **6,317** | **6,376** | **8.0** | **7.0** |
| **Short-Tail** | | | | | |
| Australia short-tail and other | 1,175 | 896 | 1,104 | 31.1 | 6.4 |
| New Zealand | 69 | 65 | 51 | 6.2 | 35.3 |
| **Long-Tail** | | | | | |
| Australia long-tail | 5,435 | 5,221 | 5,101 | 4.1 | 6.5 |
| New Zealand | 146 | 135 | 120 | 8.1 | 21.7 |
| **Total** | **6,825** | **6,317** | **6,376** | **8.0** | **7.0** |

## Outstanding claims provision breakdown

The valuation of outstanding claims at December 2011 resulted in central estimate releases of $54 million. This is consistent with the Group's normal expectation for reserve releases (1.5% of net earned premium).

Long-tail claims reserve releases of $84 million were primarily attributable to improved claims management and favourable claims experience.

Short-tail strengthening was required for a number of reasons, including an increase in costs from prior period natural hazards and the impact of the NSW repairable write-off legislation.

| | ACTUAL | NET CENTRAL ESTIMATE (DISCOUNTED) | RISK MARGIN (90TH PERCENTILE DISCOUNTED) | CHANGE IN NET CENTRAL ESTIMATE [(1)] |
|---|---|---|---|---|
| | $M | $M | $M | $M |
| **Short-Tail** | | | | |
| Australian short-tail and other | 1,175 | 1,072 | 103 | 30 |
| New Zealand | 69 | 55 | 14 | - |
| **Long-Tail** | | | | |
| Australia long-tail | 5,435 | 4,562 | 873 | (84) |
| New Zealand | 146 | 104 | 42 | - |
| **Total** | **6,825** | **5,793** | **1,032** | **(54)** |

(1) This column is equal to the closing central estimate for outstanding claims (before the impact of a change in interest rates) incurred before the opening balance sheet date, less the opening net central estimate for outstanding claims, plus payments and claims handling expenses, less investment income earned on the net central estimate. A negative sign ( – ) implies that there has been a release from outstanding reserves.

## Operating expenses

Total operating expenses have decreased 1.5% to $783 million. As a result of this reduction and premium growth, the total operating expense ratio has decreased to 23.3% from 24.4%.

Acquisition costs have decreased $13 million to $434 million primarily due to a $28 million adjustment to deferred acquisition costs in New Zealand. The acquisition expenses ratio has decreased to 12.9% from 13.7%.

Other underwriting expenses have increased $1 million to $349 million. The other underwriting expense ratio has decreased to 10.4% from 10.7%, predominantly due to the 2.8% increase in net earned premium. As a result of tighter expense management, the General Insurance business has been able to reduce operating expenses. These benefits have been offset by an additional $8 million charge for Fire Services Levies and $7 million in restructuring costs.

## Managed schemes

Managed schemes contributed $2 million. Due to the timing of recognising income in NSW, the net profit from managed scheme business was marginal.

## Joint ventures and other income

The Group participates in joint venture arrangements with RACT in Tasmania and Capital SMART repairs. The joint venture and other income contribution for the half year to 31 December 2011 was $6 million, down from $12 million in the prior corresponding period. This is mainly as a result of the Group having made a gain of $4 million following the transfer of a 15% ownership interest in RACT back to the joint venture partner in October 2010. Capital SMART continued its site roll-out and, despite this, continues to provide a small net profit after tax.

## Investment income

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Investment income on insurance funds** | | | | | |
| Cash and short term deposits | 2 | 1 | 2 | 100.0 | - |
| Interest bearing securities and other | 371 | 338 | 167 | 9.8 | 122.2 |
| **Total** | **373** | **339** | **169** | **10.0** | **120.7** |
| **Investment income on shareholder funds** | | | | | |
| Cash and short-term deposits | 11 | 14 | 8 | (21.4) | 37.5 |
| Interest bearing securities | 108 | 99 | 69 | 9.1 | 56.5 |
| Overseas equities [1] | - | (3) | 4 | (100.0) | (100.0) |
| Property and other | 7 | 9 | 6 | (22.2) | 16.7 |
| **Total** | **126** | **119** | **87** | **5.9** | **44.8** |
| **Total investment income** | **499** | **458** | **256** | **9.0** | **94.9** |

(1) Refers to investments held by the New Zealand entities.

Total investment income of $499 million resulted in a total return of approximately 4.5% for the half.

Global markets were particularly volatile in the first half, primarily driven by heightened financial risk in Europe, resulting in credit rating downgrades of most countries in the European Economic Area. Confidence continues to be tested, resulting in continued market volatility and further uncertainty that has driven a fall in Australian risk-free rates and a significant widening of credit spreads. Further evidence was seen in successive 25 basis point cuts in the Australian official cash rate in November and December 2011.

The total investment income on technical reserves was $373 million. This result comprises:

- Underlying yield income of $206 million for a running yield of 5.1%. Underlying yield income was driven by returns from risk-free rates and credit spreads from fixed interest securities.
- $281 million is attributable to changes in the yield curve on assets backing liabilities which were offset by the corresponding discount on outstanding claims.
- An accounting mismatch of positive $46 million was caused by the impact of decreasing yields on the assets backing liabilities that are not marked to market (discounted) for accounting purposes, namely unearned premium net of insurance debtors. It is called an accounting mismatch because the liability is, in reality, interest rate sensitive.
- An economic mismatch loss of $160 million. This was due to mark-to-market losses from credit spreads widening of $109 million and a negative return on inflation-linked bonds of $51 million.

New Zealand insurance funds contributed investment income on interest-bearing securities of $6 million.

Investment income on shareholders' funds was $126 million, a yield of 4.3% for the half. The Australian shareholder funds component returned $113 million, which includes $69 million attributable to underlying yield income on interest bearing securities. Whilst additional returns of $90 million were obtained from mark-to-market gains due to interest rates falling, the general widening of credit spreads resulted in losses of $31 million. Property and other contributed a further $7 million. New Zealand contributed a net return of $13 million on shareholder funds.

## Investment assets

| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| **Allocation of investments held against:** | | | | | |
| **Insurance funds** | | | | | |
| Cash and short-term deposits | 128 | 87 | 90 | 47.1 | 42.2 |
| Interest bearing securities and other | 7,994 | 7,944 | 8,191 | 0.6 | (2.4) |
| **Total** | **8,122** | **8,031** | **8,281** | **1.1** | **(1.9)** |
| **Shareholders' funds** | | | | | |
| Cash and short-term deposits | 416 | 570 | 296 | (27.0) | 40.5 |
| Interest bearing securities | 2,532 | 2,270 | 2,784 | 11.5 | (9.1) |
| Overseas equities [1] | 68 | 84 | 78 | (19.0) | (12.8) |
| Property | 70 | 79 | 86 | (11.4) | (18.6) |
| **Total** | **3,086** | **3,003** | **3,244** | **2.8** | **(4.9)** |

(1) Refers to investments held by the New Zealand entities.

The Australian technical reserves are generally managed against a uniform benchmark allocation of 40% Australian investment grade credit, 20% inflation-linked bonds, 20% Commonwealth Government and 20% Semi-Government.

The Australian Shareholders' Fund portfolio is managed against a benchmark consisting of a 100% allocation to Australian investment grade credit. The Board has authorised a change in asset strategy to allow investments in international investment grade credit as part of the shareholders' fund portfolios, which became operational in February 2012. All foreign currency exchange and foreign interest risk is intended to be fully hedged. This approach to international credit will allow the asset manager to achieve greater diversification across the portfolio and reduce concentration risk to single issuers and certain industries.

## Credit ratings for General Insurance fixed interest investments

| | HALF YEAR ENDED | | |
|---|---|---|---|
| AVERAGE | DEC-11 % | JUN-11 % | DEC-10 % |
| AAA | 49.6 | 47.3 | 45.5 |
| AA | 35.3 | 40.0 | 41.0 |
| A | 14.0 | 11.4 | 12.3 |
| BBB | 1.1 | 1.3 | 1.2 |
| | **100.0** | **100.0** | **100.0** |

## Personal Lines Australia

| | HALF YEAR ENDED DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| Gross written premium | 2,213 | 2,138 | 2,067 | 3.5 | 7.1 |
| Net earned premium | 2,004 | 1,835 | 1,883 | 9.2 | 6.4 |
| Net incurred claims | (1,591) | (1,437) | (1,452) | 10.7 | 9.6 |
| Acquisition expenses | (240) | (209) | (216) | 14.8 | 11.1 |
| Other underwriting expenses | (185) | (195) | (187) | (5.1) | (1.1) |
| Total operating expenses | (425) | (404) | (403) | 5.2 | 5.5 |
| **Underwriting result** | (12) | (6) | 28 | 100.0 | n/a |
| Investment income - insurance funds | 17 | 64 | 58 | (73.4) | (70.7) |
| **Insurance trading result** | 5 | 58 | 86 | (91.4) | (94.2) |
| | % | % | % | | |
| **Ratios** | | | | | |
| Acquisition expenses ratio | 12.0 | 11.4 | 11.5 | | |
| Other underwriting expenses ratio | 9.2 | 10.6 | 9.9 | | |
| Total operating expenses ratio | 21.2 | 22.0 | 21.4 | | |
| Loss ratio | 79.4 | 78.3 | 77.1 | | |
| Combined operating ratio | 100.6 | 100.3 | 98.5 | | |
| Insurance trading ratio | 0.2 | 3.2 | 4.6 | | |

### Result overview

Australian Personal Insurance lines contributed an insurance trading result of $5 million. Underlying performance in personal lines improved, however, the result was lower due to the impact of the Christmas Day Melbourne hailstorm.

Gross Written Premium improved 7.1% primarily due to significant premium increases in Home to offset additional reinsurance costs. The rollout of the General Insurance Pricing Engine ('GIPE') across all major motor brands also provided benefits. The positive customer response to the Suncorp brand following the Brisbane floods has resulted in the brand increasing new business and retention despite significant premium increases.

The business continued to optimise its functional operating model with clear focus on profitable growth. This involved improving underwriting discipline in the home and motor portfolios, simplifying claims systems and leveraging the portfolio of brands within clearly defined customer segments.

Despite increased reinsurance costs, additional natural hazard allowances and reduced investment returns, the personal lines' underlying margin improved over the half.

### Outlook

Deriving the full benefits from the Building Blocks projects in pricing and claims remains the focus for Personal Insurance. In claims, this involves capturing further cost reductions including expanding the footprint of its highly successful SMART shops in the Sydney metro area over the next six months.

While the full impact of these initiatives on average claims costs will not be realised until 2013, the benefits of a single claims system were highlighted after the Melbourne 2011 hailstorm. New Repairlink assessment and repair systems assessed approximately 720 vehicles per day, double the previous capacity and representing an eight week reduction in wait time.

In pricing, the business is well positioned to sustain expected increases in reinsurance over the coming year and will continue to refine its pricing models to ensure premiums accurately reflect individual risk profiles against a range of perils.

## Commercial Lines Australia

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Gross written premium | 1,228 | 1,238 | 1,154 | (0.8) | 6.4 |
| Net earned premium | 1,081 | 1,019 | 1,094 | 6.1 | (1.2) |
| Net incurred claims | (1,030) | (793) | (623) | 29.9 | 65.3 |
| Acquisition expenses | (149) | (152) | (162) | (2.0) | (8.0) |
| Other underwriting expenses | (141) | (144) | (138) | (2.1) | 2.2 |
| Total operating expenses | (290) | (296) | (300) | (2.0) | (3.3) |
| **Underwriting result** | (239) | (70) | 171 | 241.4 | n/a |
| Investment income - insurance funds | 350 | 266 | 104 | 31.6 | 236.5 |
| **Insurance trading result** | 111 | 196 | 275 | (43.4) | (59.6) |
| | % | % | % | | |
| **Ratios** | | | | | |
| Acquisition expenses ratio | 13.8 | 14.9 | 14.8 | | |
| Other underwriting expenses ratio | 13.0 | 14.1 | 12.6 | | |
| Total operating expenses ratio | 26.8 | 29.0 | 27.4 | | |
| Loss ratio | 95.3 | 77.8 | 56.9 | | |
| Combined operating ratio | 122.1 | 106.8 | 84.3 | | |
| Insurance trading ratio | 10.3 | 19.2 | 25.1 | | |

### Result overview

Australian Commercial Insurance contributed an Insurance Trading Result of $111 million, significantly lower than previous periods due to reduced reserve releases and falling interest rates.

Gross Written Premium increased by 6.4% while Net Earned Premium fell 1.2% due to the impact of exited portfolios. The business has maintained pricing and risk discipline during a period of intense competition. It has continued to invest in its distribution and service capability which is core to the strategy of growing market share at acceptable margin. As part of this growth strategy, Suncorp acquired AMP's General Insurance Distribution business to further strengthen distribution capability.

Commercial Insurance continues to experience pressure on underlying margins through lower investment yields with limited ability to increase premiums in statutory classes such as CTP. Although margins have been impacted by these factors, the underlying ITR has been supported through renewed cost initiatives.

Reserve releases from long-tail classes have been driven primarily by favourable large claims experience and a reduction in the wage inflation assumption from 4.5% to 4.25%; however, this has been partly offset by reserve strengthening in the discontinued Home Owners Warranty class.

### Outlook

Suncorp anticipates the Commercial Insurance market will remain challenging due to volatile investment markets. Recent experience suggests there is significant price hardening as competitors address underperformance across their portfolios.

Suncorp Commercial Insurance remains committed to driving profitable growth through customer service initiatives such as the finalisation of a common claims management platform across Statutory classes, investments in risk selection and pricing, internal operating efficiencies and people programs.

Falling interest rates will continue to impact profitability and this is increasingly being recognised by scheme regulators who have begun increasing prices in statutory classes. Suncorp is actively engaging Governments and regulators to assist in the review of schemes and other Government initiatives.

## New Zealand

This table is shown in A$. It is shown in NZ$ in Appendix 6.

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Gross written premium | 414 | 341 | 342 | 21.4 | 21.1 |
| Net earned premium | 274 | 157 | 289 | 74.5 | (5.2) |
| Net incurred claims | (199) | (236) | (209) | (15.7) | (4.8) |
| Acquisition expenses | (45) | (104) | (69) | (56.7) | (34.8) |
| Other underwriting expenses | (23) | (24) | (23) | (4.2) | - |
| Total operating expenses | (68) | (128) | (92) | (46.9) | (26.1) |
| **Underwriting result** | 7 | (207) | (12) | n/a | n/a |
| Investment income - insurance funds | 6 | 9 | 7 | (33.3) | (14.3) |
| **Insurance trading result** | 13 | (198) | (5) | n/a | n/a |
| | % | % | % | | |
| **Ratios** | | | | | |
| Acquisition expenses ratio | 16.4 | 66.2 | 23.9 | | |
| Other underwriting expenses ratio | 8.4 | 15.3 | 8.0 | | |
| Total operating expenses ratio | 24.8 | 81.5 | 31.9 | | |
| Loss ratio | 72.6 | 150.3 | 72.3 | | |
| Combined operating ratio | 97.4 | 231.8 | 104.2 | | |
| Insurance trading ratio | 4.7 | (126.1) | (1.7) | | |

### Result overview

Suncorp’s New Zealand operations contributed an insurance trading result of A$13 million.

An increase in the estimate of ultimate claims costs for the February 2011 earthquake has resulted in a $38 million impact on the New Zealand result. At 30 June 2011, this event was estimated to cost A$2.0 billion (NZ$2.65 billion). Based on more recent estimates, the gross costs are expected to be A$2.3 billion (NZ$3 billion). The Group's reinsurance program for the 2011 financial year provided full protection for the cost of NZ events between A$200 million and A$2.5 billion. For NZ events over A$2.5 billion, Suncorp shares a small portion of the gross costs with reinsurers. The current estimate remains below the A$2.5 billion, however, the Group's risk margins are set to ensure a 90% level of confidence of sufficiency and given the potential for fluctuations in the A$:NZ$ exchange rate, Suncorp has increased the risk margin by $38 million. Should claims arising from the February 2011 earthquake settle in accordance with Suncorp's current estimate, the risk margin will reduce by $38 million with a corresponding increase in profit.

Gross Written Premium is up 21.1% in Australian dollar terms and 20.6% in New Zealand dollar terms, due to increases across commercial and personal lines. Despite these significant premium increases, additional reinsurance costs have caused a 5.2% reduction in Net Earned Premium. The underlying ITR is negative for the half due to the immediate impact of the additional reinsurance costs being only partly offset by premium increases.

### Outlook

Despite global financial market volatility and a protracted recovery from the Christchurch earthquakes, the prospects for the New Zealand economy remain positive. The December 2011 earthquake has added to claims management and rebuilding challenges in Christchurch. Insurers, government agencies and others are stepping up efforts to address recovery issues. There is also growing national recognition of the need to better align insurance premiums and underwriting with the reality of New Zealand’s earthquake experience.

# Core Bank

## Result overview

The Core Bank delivered an improved first half result in challenging market conditions with net profit after tax up 41.8% to $156 million.

Following the weather events of early 2011 and weaker economic conditions in its home Queensland market, the Core Bank has been focused on rebuilding its lending pipeline. This resulted in a return to above system home lending growth in the half.

The Core Bank maintains its conservative funding position with the deposit to lending ratio at 69.4%.

The Bank's funding position was further strengthened in the half with a $1.25 billion residential mortgage backed securitisation (RMBS) issue that was well supported by the market. In a volatile global financial market, Suncorp has maintained its 'A+/A1' credit rating, ensuring a diverse range of funding sources remains available to the Bank.

The Bank commenced the first phase of its Core System replacement program in the first half. This first phase of work involves the replacement of the Customer Relationship Management (CRM), Broker Commission and Trade Finance systems. The delivery of the first phase of work remains on schedule to be completed by June 2012.

Net interest income of $441 million was up 10.3%. This resulted in a robust net interest margin against interest earning assets of 1.91% and a net interest margin against lending assets of 2.20%.

Non-interest income was up 13.7% to $58 million, made up of net banking fee income of $41 million, mark-to-market movements of $14 million and other income of $3 million.

Operating expenses were 7.9% higher due to investment in the Bank's product, distribution and sales force capability. The Core Bank's cost to income ratio reduced to 51.7% in the half (down from 53.0% in December 2010, and 52.0% in June 2011).

Impairment losses were $9 million. There was improvement in Core arrears trends as conditions normalised following the weather events of early 2011. The impairment losses included the write-back of the $25 million flood provision raised in December 2010 as well as an increase in collective provisions of $13 million resulting from methodology changes.

## Outlook

Throughout 2011, Suncorp's selected markets were characterised by subdued consumer and small business confidence. Continued economic uncertainty and rising unemployment is likely to see these conditions persist into the 2012 calendar year. Recent reductions in the Reserve Bank rate may provide some relief to the more challenged sectors of the economy. System credit growth is expected to remain below medium-term trends.

The Core Bank continues to target lending growth at or above system levels in its chosen markets. Actions taken to broaden the Bank's product proposition and improve processes and service delivery translated into strong growth late in the first half after a slow start to the financial year. This momentum is expected to continue into the 2012 calendar year.

Credit quality is well within the Bank's risk appetite and in line with expectations. The Core Bank continues to balance its appetite for growth against the need to maintain sound credit quality across the portfolio.

Term funding markets, particularly offshore, remain challenging and this has increased the level of competition for domestic retail funding. The Core Bank has limited direct exposure to these offshore pressures given its conservative funding profile. However, it is expected that current dynamics in the domestic retail funding market will continue into 2012, putting pressure on the Bank's net interest margin in the second half absent asset repricing opportunities.

A strong result in 'financial instruments and other income' in the current period is not expected to be repeated.

The Bank will continue to invest in simplification and system enhancements to deliver its mid 40's cost to income ratio target.

## Profit Contribution – Core Bank

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Net interest income** | 441 | 437 | 400 | 0.9 | 10.3 |
| **Non-interest income** | | | | | |
| Net banking fee income | 41 | 41 | 46 | - | (10.9) |
| MTM on financial instruments | 14 | 7 | 3 | 100.0 | 366.7 |
| Other income | 3 | 2 | 2 | 50.0 | 50.0 |
| Total non-interest income | 58 | 50 | 51 | 16.0 | 13.7 |
| **Total income** | 499 | 487 | 451 | 2.5 | 10.6 |
| **Operating expenses** | (258) | (253) | (239) | 2.0 | 7.9 |
| **Profit before impairment losses on loans and advances** | 241 | 234 | 212 | 3.0 | 13.7 |
| Impairment losses on loans and advances | (9) | (8) | (43) | 12.5 | (79.1) |
| **Core Bank profit before tax** | **232** | **226** | **169** | **2.7** | **37.3** |
| **Income tax** | (76) | (77) | (59) | (1.3) | 28.8 |
| **Core Bank profit after tax** | **156** | **149** | **110** | **4.7** | **41.8** |

## Ratios and statistics

| | HALF YEAR ENDED | | |
|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 |
| | % | % | % |
| Net interest margin (interest earning assets) | 1.91 | 1.97 | 1.83 |
| Net interest margin (lending assets) | 2.20 | 2.26 | 2.10 |
| Cost to income ratio | 51.7 | 52.0 | 53.0 |
| Impairment losses to gross loans and advances | 0.04 | 0.04 | 0.22 |
| Impairment losses to credit risk weighted assets | 0.08 | 0.08 | 0.42 |
| Deposit to core loan ratio | 69.4 | 70.4 | 70.8 |

## Loans, advances and other receivables

| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| Housing loans | 27,200 | 27,014 | 25,954 | 0.7 | 4.8 |
| Securitised housing loans | 4,659 | 3,980 | 4,510 | 17.1 | 3.3 |
| Total housing loans | 31,859 | 30,994 | 30,464 | 2.8 | 4.6 |
| Consumer loans | 510 | 558 | 557 | (8.6) | (8.4) |
| Retail loans | 32,369 | 31,552 | 31,021 | 2.6 | 4.3 |
| | | | | | |
| Commercial (SME) | 4,829 | 4,555 | 4,370 | 6.0 | 10.5 |
| Agribusiness | 3,576 | 3,504 | 3,358 | 2.1 | 6.5 |
| Business loans [1] | 8,405 | 8,059 | 7,728 | 4.3 | 8.8 |
| **Total lending** | **40,774** | **39,611** | **38,749** | **2.9** | **5.2** |
| | | | | | |
| Other receivables [2] | 120 | 142 | 154 | (15.5) | (22.1) |
| **Gross banking loans, advances and other receivables** | 40,894 | 39,753 | 38,903 | 2.9 | 5.1 |
| Provision for impairment | (120) | (120) | (123) | - | (2.4) |
| **Loans, advances and other receivables** | **40,774** | **39,633** | **38,780** | **2.9** | **5.1** |
| | | | | | |
| **Credit risk weighted assets** | **21,307** | **21,136** | **20,455** | **0.8** | **4.2** |

(1) From 31 December 2011, Business loans balances have been adjusted to reflect interest not brought to account, which was previously reported under “Other receivables”. This restatement has reduced Business loans balances by $23 million in June 2011 and $17 million in December 2010.

(2) Other receivables are primarily collateral deposits provided to derivative counterparties.

Total Core Bank lending assets increased to $40.8 billion, up 5.2% for the year and 2.9% for the half.

## Personal Lending

### Housing lending

Home lending, including securitised assets, totaled $31.9 billion, up 2.8% over the half.

The Core Bank implemented a number of initiatives in the first half in response to subdued activity for most of the 2011 year due to the portfolio's weighting to flood affected regions. These initiatives involved process and service delivery improvements and product enhancements to broaden the Bank's market reach.

These actions and growth in Suncorp Bank's expanding operations outside of Queensland were sufficient to return the Core Bank to the top end of its 1 to 1.3 times system target range.

### Consumer lending

Consumer (personal and margin) lending balances of $510 million were down 8.6% over the half.

Consumers remain cautious in accumulating discretionary debt given current economic conditions.

## Business Lending

The Core Bank continues to expand its capabilities in the Business Lending sector providing a broader market presence from which to deliver growth. The portfolio has built solid pipeline momentum. This is off a low base and in difficult market conditions, benefitting from investment in the Suncorp brand and the expansion of the Bank's distribution network both in and outside of Queensland. The first half saw two district banking centres opened, adding to the ten opened in the year ended June 2011.

### Commercial (SME)

Suncorp Bank's commercial (SME) lending of $4.8 billion was up 6.0% over the half.

The result included a facility to Suncorp's former joint venture partner in the Polaris Data Centre as part of the divestment transaction, which included the repayment of an existing facility in the Non-core portfolio. On an underlying basis, growth was in line with system.

The SME portfolio also benefited from robust growth in its expanding operations outside of Queensland.

### Agribusiness

The Agribusiness portfolio grew to $3.6 billion, up 2.1% over the half.

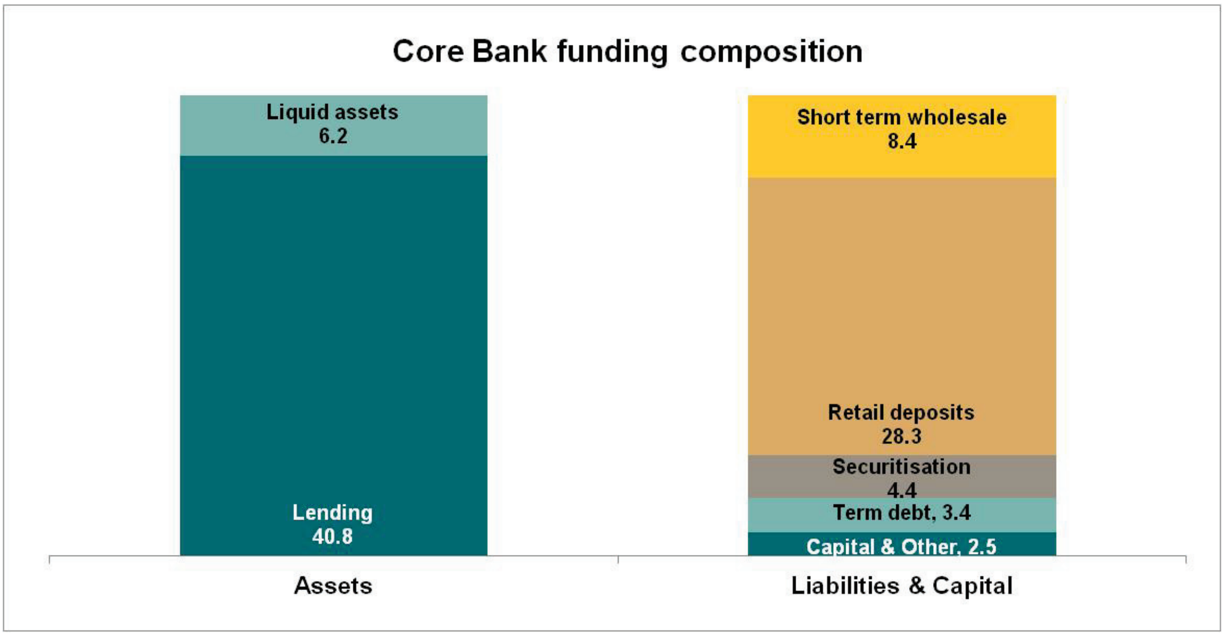
Trading conditions in the Agribusiness sector remain positive. Suncorp Bank remains strongly committed to the Agribusiness industry and will continue to leverage opportunities which have arisen in this sector as a result of favourable growing conditions.

| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| **Retail funding** | | | | | |
| *Retail deposits* | | | | | |
| Transaction | 5,814 | 5,492 | 5,517 | 5.9 | 5.4 |
| Investment | 4,032 | 3,706 | 3,651 | 8.8 | 10.4 |
| Term | 14,421 | 15,094 | 14,702 | (4.5) | (1.9) |
| Core retail deposits | 24,267 | 24,292 | 23,870 | (0.1) | 1.7 |
| Retail treasury deposits | 4,013 | 3,604 | 3,564 | 11.3 | 12.6 |
| Total retail funding | 28,280 | 27,896 | 27,434 | 1.4 | 3.1 |
| **Wholesale funding** | | | | | |
| *Domestic funding sources* | | | | | |
| Short-term wholesale | 6,980 | 5,091 | 5,537 | 37.1 | 26.1 |
| Long-term wholesale | 1,166 | 1,252 | 919 | (6.9) | 26.9 |
| Subordinated notes | 130 | 123 | 309 | 5.7 | (57.9) |
| Reset preference shares | 23 | 74 | 95 | (68.9) | (75.8) |
| Convertible preference shares | 558 | 524 | 476 | 6.5 | 17.2 |
| | 8,857 | 7,064 | 7,336 | 25.4 | 20.7 |
| *Overseas funding sources* [1] | | | | | |
| Short-term wholesale | 1,422 | 2,603 | 2,165 | (45.4) | (34.3) |
| Long-term wholesale | 1,185 | 1,386 | 1,120 | (14.5) | 5.8 |
| Subordinated notes | 382 | 488 | 452 | (21.7) | (15.5) |
| | 2,989 | 4,477 | 3,737 | (33.2) | (20.0) |
| Total wholesale funding (excluding securitisation) | 11,846 | 11,541 | 11,073 | 2.6 | 7.0 |
| **Total funding (excluding securitisation)** | **40,126** | **39,437** | **38,507** | **1.7** | **4.2** |
| **Securitised funding** | | | | | |
| APS 120 qualifying [2] | 3,322 | 2,451 | 1,998 | 35.5 | 66.3 |
| APS 120 non-qualifying | 1,034 | 1,183 | 2,140 | (12.6) | (51.7) |
| Total securitised funding | 4,356 | 3,634 | 4,138 | 19.9 | 5.3 |
| **Total funding (including securitisation)** | **44,482** | **43,071** | **42,645** | **3.3** | **4.3** |
| **Total funding is represented on the balance sheet by:** | | | | | |
| Deposits | 28,280 | 27,896 | 27,434 | 1.4 | 3.1 |
| Short-term borrowings | 8,402 | 7,694 | 7,702 | 9.2 | 9.1 |
| Securitisation liabilities | 4,356 | 3,634 | 4,138 | 19.9 | 5.3 |
| Bonds, notes and long-term borrowings | 2,351 | 2,638 | 2,039 | (10.9) | 15.3 |
| Subordinated notes | 512 | 611 | 761 | (16.2) | (32.7) |
| Preference shares | 581 | 598 | 571 | (2.8) | 1.8 |
| **Total** | **44,482** | **43,071** | **42,645** | **3.3** | **4.3** |
| **Deposit to core loan ratio** | **69.36%** | **70.42%** | **70.80%** | | |

(1) Foreign currency borrowings are hedged back into Australian dollars.
(2) Qualifies for capital relief under APS120.

## Core Bank funding composition

The Core Bank conservatively manages its capital and liability mix. Less than 5% of the Core Bank's lending portfolio is funded by short term wholesale funding. The bulk of the funding from short term wholesale markets supports the Bank's liquid asset portfolio. Suncorp Bank's liquid asset ratio is significantly above its peer group. The Bank currently holds excess liquid assets over prudential requirements and is well positioned to meet any regulator imposed industry requirements to strengthen liquidity reserves.




The Core Bank has access to significant contingent liquidity in a crisis, including a pipeline of around $7.5 billion of mortgages that can be utilised if required.

### Retail funding

The Core Bank's lending growth continues to be primarily funded by retail deposits with the deposit to lending ratio of 69.4% at the half year at the upper end of the 60% to 70% target range.

The Bank's "at call" deposit portfolio increased by 7.4%, or 1.8 times system (as measured by the RBA). Robust growth in the portfolio was supported by successful campaign activity and an enhanced product proposition has been a strong contributor to solid progress in improving "complete customer" penetration targets.

The term deposit portfolio decreased 1.9% as the Bank balanced volume, margin and customer relationship considerations. The Core Bank has an established term deposit franchise with strong retention performance. This portfolio continues to provide a steady source of retail deposit funding.

### Wholesale funding

The Bank has continued its approach of maintaining a conservative balance sheet funding profile. The success in maintaining the deposit to lending ratio within the 60% to 70% target range has resulted in a substantial reduction in the requirement for wholesale funding.

The 'A+/A1' credit rating of the Bank enables Suncorp to access diverse global funding markets, whilst its strong retail deposit base ensures the Bank is not reliant on the more expensive offshore term funding markets. This provides the Bank with substantial funding flexibility and future capacity for growth. During the half the Bank further expanded its funding base by completing its first securitisation transaction since May 2010, raising $1.25 billion.

During 2012 Suncorp Bank will monitor developments in the funding markets. Suncorp Bank is one of the few institutions able to issue AAA-rated covered bonds and will consider accessing this market given appropriate market conditions. The Bank will also look to senior and RMBS markets when and if conditions are suitable.

## Wholesale funding instruments maturity profile[1]

| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| **Maturity** | | | | | |
| 0 to 3 months | 7,733 | 7,647 | 7,246 | 1.1 | 6.7 |
| 3 to 6 months | 1,172 | 768 | 1,139 | 52.6 | 2.9 |
| 6 to 12 months | 920 | 669 | 950 | 37.5 | (3.2) |
| 1 to 3 years | 4,443 | 4,784 | 4,243 | (7.1) | 4.7 |
| 3+ years [1] | 1,934 | 1,307 | 1,633 | 48.0 | 18.4 |
| Total wholesale funding instruments | 16,202 | 15,175 | 15,211 | 6.8 | 6.5 |

(1) Includes wholesale debt, securitisation, subordinated notes and preference shares.

The Bank operates a conservative wholesale funding instrument duration profile given the very strong retail deposit to lending ratio. Securitisation represents over half of wholesale funding with a maturity of greater than 12 months. While this funding amortises over time, its rate of duration decline is lower than other term funding instruments. This reduces the profile of future funding maturity towers and is important in reducing refinancing risk.

## Net interest income

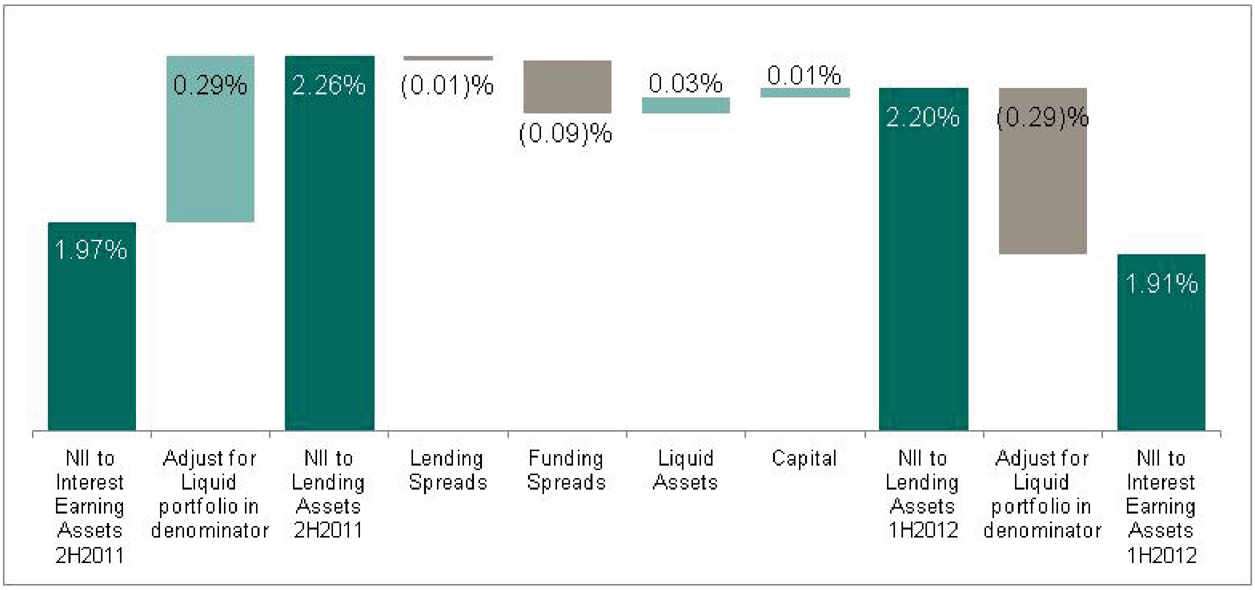
| | HALF YEAR ENDED DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| Interest revenue lending assets | 1,454 | 1,426 | 1,376 | 2.0 | 5.7 |
| Interest revenue other assets [1] | 176 | 169 | 161 | 4.1 | 9.3 |
| Interest expense deposits and funding | (1,189) | (1,158) | (1,137) | 2.7 | 4.6 |
| **Net interest income** | **441** | **437** | **400** | **0.9** | **10.3** |
| **Net interest margin (interest earning assets)** | **1.91%** | **1.97%** | **1.83%** | | |
| **Net interest margin (lending assets)** | **2.20%** | **2.26%** | **2.10%** | | |

(1) Includes liquid asset portfolio.

Net interest income of $441 million was up 10.3%. Although up by eight basis points over the prior corresponding period, the net interest margin against interest earning assets eased in the first half by six basis points to 1.91%. Likewise, the net interest margin against lending assets improved ten basis points on the year, but eased six basis points during the first half to 2.20%.

The difference between the margin to lending assets and interest earning assets reflects the Bank's approach to liquidity management. Higher liquid asset balances than the industry average dilute the margin on average interest earning assets. The impact and associated cost of holding liquid assets is factored into both measures. As such, the margin on lending assets is a better reflection of the total profitability of the Bank against its customer franchise and is a better metric for competitor comparison.

## Net interest margin movements




The Core Bank experienced a six basis point decline in the net interest margin over the half.

Retail funding costs increased due to the level of competition for term deposit funding and the inability to fully re-price low cost transaction and savings accounts in line with the reduction in the Reserve Bank cash rate.

These pressures were partly offset by enhanced yields on liquid assets following balance sheet management activity to optimise the return from this portfolio. Lending spreads remained stable over the half.

## Non-interest income

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Net lending fees | 3 | - | 3 | n/a | - |
| Other banking fee income | 38 | 41 | 43 | (7.3) | (11.6) |
| Other non-interest income | 17 | 9 | 5 | 88.9 | 240.0 |
| | **58** | **50** | **51** | **16.0** | **13.7** |

Non-interest income totaled $58 million and includes net banking fee income of $41 million.

Net banking fees performance reflects consumer preference for low fee products.

## Financial instruments and other income

Other non interest income was made up of net mark-to-market (MTM) gains on financial instruments of $14 million and other income of $3 million.

The MTM result of $14 million included non-recurring income relating to realised gains on the sale of liquid assets of $6 million and unrealised gains on derivative instruments of $5 million that will unwind in future periods.

Suncorp Bank purchases liquid assets and uses hedging instruments for balance sheet risk management purposes. The Core Bank places some of its liquid assets into a trading portfolio which it uses to manage liquidity and is accounted for on a fair value basis. The Bank uses short-dated hedges which do not qualify for hedge accounting and, hence, are valued on an MTM basis. These instruments are often held to maturity and as such any unrealised MTM will unwind through net interest income until maturity.

The prior corresponding period result of $5 million is a better reflection of the expected underlying earnings profile from these activities.

### Unrealised mark-to-market movement

| | HALF YEAR ENDED | | |
|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 |
| | $M | $M | $M |
| Balance at the beginning of the half year | 8 | 8 | 7 |
| Unwind to net interest income | (4) | (3) | 1 |
| Unrealised gains for the period | 4 | 3 | - |
| **Balance at the end of the half year** | **8** | **8** | **8** |

### Expected unwind profile

| | JUN-12 | DEC-12 | JUN-13 |
|---|---|---|---|
| | $M | $M | $M |
| Balance at the beginning of the half year | 8 | 5 | 3 |
| Movement future periods | (3) | (2) | - |
| **Balance at the end of the half year** | **5** | **3** | **3** |

## Operating expenses

Core Bank operating expenses were $258 million.

Operating expenses were 7.9% higher than the prior corresponding period due to investment in the Bank's product, distribution and sales force capability. The Core Bank's cost to income ratio reduced to 51.7% in the half (down from 53.0% in December 2010, and 52.0% in June 2011).

The Bank's investment in product, distribution and sales force capability, included:

- the continuing expansion of the branch and district banking centre network with two new branches and two district banking centres opened during the half. 21 new branches and district banking centres were opened during the 2011 financial year;
- a 4% increase in front line staff outside of Queensland; and
- investment in the Trade and Equipment Finance portfolios.

## Impairment losses on loans and advances

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Collective provision for impairment | (6) | (2) | 18 | 200.0 | n/a |
| Specific provision for impairment | 13 | 7 | 25 | 85.7 | (48.0) |
| Actual net write-offs | 2 | 3 | - | (33.3) | n/a |
| | **9** | **8** | **43** | **12.5** | **(79.1)** |
| **Impairment losses to credit risk weighted assets (annualised)** | **0.08%** | **0.08%** | **0.42%** | | |

Impairment losses on loans and advances were $9 million. This charge represents eight basis points (annualised) of credit risk weighted assets.

The half year result benefited from the full release of the $25 million flood provision put in place in December 2010. Investigations have shown that arrears in flood impacted areas have not been higher than those in other areas. Total flood-related charges were minimal with one business lending customer generating a charge of $1.3 million.

Approximately $5 million of the home lending portfolio required restructured arrangements as a consequence of the weather events. This represented approximately 2% of loans that had received hardship assistance. These loans are meeting restructured obligations and losses from these loans are expected to be immaterial.

The half year result also included a $13 million charge relating to a one-off adjustment required to reflect changes in the Core Bank's collective provisioning methodology for portfolio managed exposures, i.e. not individually rated. This change reflects the continued enhancement program undertaken on credit risk modelling, and follows the changes implemented to individually rated exposures in the 2010 financial year.

Excluding these impacts underlying impairment losses represented 18 basis points (annualised) of the credit risk-weighted assets.

## Impaired asset balances

| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| **Gross balances of individually impaired loans** | | | | | |
| with specific provisions set aside | 124 | 136 | 179 | (8.8) | (30.7) |
| without specific provisions set aside | 17 | 10 | - | 70.0 | n/a |
| Gross impaired assets | 141 | 146 | 179 | (3.4) | (21.2) |
| Specific provision for impairment | (45) | (39) | (40) | 15.4 | 12.5 |
| **Net impaired assets** | 96 | 107 | 139 | (10.3) | (30.9) |
| | | | | | |
| **Size of gross impaired assets** | | | | | |
| Less than one million | 21 | 22 | 12 | (4.5) | 75.0 |
| Greater than one million but less than ten million | 101 | 87 | 111 | 16.1 | (9.0) |
| Greater than ten million | 19 | 37 | 56 | (48.6) | (66.1) |
| | 141 | 146 | 179 | (3.4) | (21.2) |
| | | | | | |
| **Past due loans not shown as impaired assets** | 300 | 386 | 224 | (22.3) | 33.9 |
| | | | | | |
| **Gross non-performing loans** | 441 | 532 | 403 | (17.1) | 9.4 |
| | | | | | |
| **Analysis of movements in gross impaired assets** | | | | | |
| Balance at the beginning of the half year | 146 | 179 | 150 | (18.4) | (2.7) |
| Recognition of new impaired assets | 37 | 24 | 78 | 54.2 | (52.6) |
| Increases in previously recognised impaired assets | 1 | 6 | 2 | (83.3) | (50.0) |
| Impaired assets written off/sold during the half year | (3) | - | (12) | n/a | (75.0) |
| Impaired assets which have been reclassed as performing assets or repaid | (40) | (63) | (39) | (36.5) | 2.6 |
| **Balance at the end of the half year** | **141** | **146** | **179** | **(3.4)** | **(21.2)** |

## Past due (not shown as impaired)

Past due loans decreased by $86 million over the half. There has been considerable improvement in the Core portfolio as conditions have normalised following the flood and weather events of early 2011.

The improvement has been most evident in the Retail Lending portfolio, albeit with an expected seasonal uptick evident in December.

## Impaired assets

Gross impaired asset balances decreased by $5 million over the half to $141 million. Newly impaired assets, predominantly in the business lending portfolio, were offset by impaired loans being repaid or returning to performing status.

## Provision for impairment

| | DEC-11 | JUN-11 | DEC-10 | DEC-11 vs JUN-11 | DEC-11 vs DEC-10 |
|---|---|---|---|---|---|
| | $M | $M | $M | % | % |
| **Collective provision** | | | | | |
| Balance at the beginning of the period | 81 | 83 | 65 | (2.4) | 24.6 |
| Charge against contribution to profit | (6) | (2) | 18 | 200.0 | n/a |
| Balance at the end of the period | 75 | 81 | 83 | (7.4) | (9.6) |
| **Specific provision** | | | | | |
| Balance at the beginning of the period | 39 | 40 | 37 | (2.5) | 5.4 |
| Charge against impairment losses | 13 | 7 | 25 | 85.7 | (48.0) |
| Write-off of impaired assets | (3) | (2) | (17) | 50.0 | (82.4) |
| Unwind of interest | (4) | (6) | (5) | (33.3) | (20.0) |
| Balance at the end of the period | 45 | 39 | 40 | 15.4 | 12.5 |
| **Total provision for impairment - Banking activities** | 120 | 120 | 123 | - | (2.4) |
| **Equity reserve for credit loss** | | | | | |
| Balance at the beginning of the period | 74 | 72 | 84 | 2.8 | (11.9) |
| Transfer (to)/from retained earnings | 33 | 2 | (12) | large | n/a |
| Balance at the end of the period | 107 | 74 | 72 | 44.6 | 48.6 |
| Pre-tax equivalent coverage | 153 | 106 | 103 | 44.3 | 48.5 |
| **Total provision for impairment and equity reserve for credit loss coverage - Core Banking activities** | 273 | 226 | 226 | 20.8 | 20.8 |

| | . % | % | % |
|---|---|---|---|
| **Provision for impairment expressed as a percentage of gross impaired assets are as follows:** | | | |
| Collective provision | 53.2 | 55.5 | 46.4 |
| Specific provision | 31.9 | 26.7 | 22.3 |
| Total provision | 85.1 | 82.2 | 68.7 |
| Equity reserve for credit loss coverage | 108.5 | 72.6 | 57.5 |
| Total provision and equity reserve for credit loss coverage | 193.6 | 154.8 | 126.3 |

The first half included a one-off structural shift in the collective provision and the equity reserve for credit loss due to modeling enhancements. Along with the reduction in impaired assets, this has contributed to the increase in the provision coverage from 155% at June 2011 to 194% as at December 2011.

## Average banking balance sheets

| | HALF YEAR ENDED DEC-11 | | | HALF YEAR ENDED JUN-11 | | |
|---|---|---|---|---|---|---|
| | AVERAGE BALANCE $M | INTEREST $M | AVERAGE RATE % | AVERAGE BALANCE $M | INTEREST $M | AVERAGE RATE % |
| **ASSETS** | | | | | | |
| **Interest earning assets** | | | | | | |
| Trading and investment securities | 5,979 | 176 | 5.84 | 5,858 | 169 | 5.82 |
| Gross loans, advances and other receivables | 39,763 | 1,454 | 7.25 | 38,970 | 1,426 | 7.38 |
| Other interest earning assets | - | - | - | - | - | - |
| Total interest earning assets | 45,742 | 1,630 | 7.07 | 44,828 | 1,595 | 7.18 |
| **Non-interest earning assets** | | | | | | |
| Other assets (inc. loan provisions) | 763 | | | 640 | | |
| Total non-interest earning assets | 763 | | | 640 | | |
| **TOTAL ASSETS** | 46,505 | | | 45,468 | | |
| **LIABILITIES** | | | | | | |
| **Interest bearing liabilities** | | | | | | |
| Retail deposits | 27,740 | 717 | 5.13 | 27,237 | 711 | 5.26 |
| Wholesale liabilities | 14,693 | 441 | 5.95 | 14,303 | 416 | 5.87 |
| Debt capital | 1,074 | 31 | 5.73 | 1,102 | 31 | 5.67 |
| Total interest bearing liabilities | 43,507 | 1,189 | 5.42 | 42,642 | 1,158 | 5.48 |
| **Non-interest bearing liabilities** | | | | | | |
| Other liabilities | 927 | | | 960 | | |
| Total non-interest bearing liabilities | 927 | | | 960 | | |
| **TOTAL LIABILITIES** | 44,434 | | | 43,602 | | |
| **AVERAGE SHAREHOLDERS' EQUITY** | 2,071 | | | 1,866 | | |
| Non-Shareholder Accounting Equity | 50 | | | 43 | | |
| Average Shareholder Equity | 2,121 | | | 1,909 | | |
| SGL Goodwill allocated to Banking Business | (235) | | | (235) | | |
| **AVERAGE SHAREHOLDERS' EQUITY (ex Goodwill)** | 1,886 | | | 1,674 | | |
| **Analysis of interest margin and spread** | | | | | | |
| Interest earning assets | 45,742 | 1,630 | 7.07 | 44,828 | 1,595 | 7.18 |
| Interest bearing liabilities | 43,507 | 1,189 | 5.42 | 42,642 | 1,158 | 5.48 |
| **Net interest spread** | | | 1.65 | | | 1.70 |
| **Net interest margin (interest earning assets)** | 45,742 | 441 | 1.91 | 44,828 | 437 | 1.97 |
| **Net interest margin (lending assets)** | 39,763 | 441 | 2.20 | 38,970 | 437 | 2.26 |

# Non-core Bank

## Result overview

The Non-core Bank net loss after tax was $54 million, down from a $107 million loss in the December 2010 half.

The improvement reflects lower impairment losses and the $34.5 million pre-tax profit on sale of the Bank's joint venture share of the Polaris Data Centre.

The Non-core Bank continued to exceed run-off targets during the first half. Loans and advances reduced to $5.7 billion. Run-off was achieved across all product segments, with the number of large exposures (>$50 million) declining from 53 to 44 over the half.

Net interest income of $28 million was down due to portfolio run-off. It included significant levels of recovery of 'interest not brought to account' on impaired assets, which is not expected to be sustained. The run-off also impacted net banking fees, down to $7 million from $21 million.

Impairment losses of $122 million included $58 million of adjustments related to extensions on workout dates. The remaining charge related predominantly to increased specific provisions on existing, rather than newly impaired assets. Operating expenses of $33 million were down 17.5%.

Non-core Bank gross impaired assets were $2.16 billion, down from $2.24 billion at June 2011. The European Sovereign Debt crisis continues to drive caution in domestic markets, particularly in the market for non-core impaired assets. As a result, a number of impaired exposures have seen an extension to their workout periods. These extensions delay the run-off of impaired assets and result in higher impairment loss charges. Global uncertainty has also impacted valuations, particularly in the development property market as the demand for future development stock has also extended.

The Bank has maintained its strategy of match funding the Non-core book, delivering a profile of low refinancing risk through to portfolio maturity. The Bank currently holds excess liquid assets over prudential requirements and is well positioned to meet any regulator-imposed industry requirements to strengthen liquidity reserves.

## Outlook

The Non-core Bank portfolio continues to run off ahead of target. It is expected that run-off will slow and begin to trend more closely to original expectations, especially if term funding markets remain problematic. The Non-core Bank's capital, funding and liquidity positions have been set to provide a buffer to any further market slowdown or change in regulatory requirements.

While the trend in impairment losses has improved, risks remain within the Non-core Bank. These relate primarily to the residual book having a high concentration of large exposures, and the impact of volatility in credit and equity markets on investor appetite for the impaired asset sector of the market. Further extensions to workout periods remain a risk whilst markets continue to be unstable.

The cost of carrying impaired loans and the degree of success in recoveries of interest not brought to account on these loans will also have an impact on net interest income in future periods.

The focus remains on responsible run-off of the portfolio to maximise the value of distributable capital that can be returned to the Group.

## Profit contribution – Non-core Bank

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Net interest income** | 28 | 35 | 38 | (20.0) | (26.3) |
| **Non-interest income** | | | | | |
| Net banking fee income | 7 | 10 | 21 | (30.0) | (66.7) |
| Other income | 26 | (2) | (2) | n/a | n/a |
| Total non-interest income | 33 | 8 | 19 | 312.5 | 73.7 |
| **Total income** | 61 | 43 | 57 | 41.9 | 7.0 |
| **Operating expenses** | (33) | (36) | (40) | (8.3) | (17.5) |
| **Profit before impairment losses on loans and advances** | 28 | 7 | 17 | 300.0 | 64.7 |
| Impairment losses on loans and advances | (122) | (104) | (170) | 17.3 | (28.2) |
| **Non-core Bank profit/(loss) before tax** | **(94)** | **(97)** | **(153)** | **(3.1)** | **(38.6)** |
| **Income tax** | 40 | 29 | 46 | 37.9 | (13.0) |
| **Non-core Bank profit/(loss) after tax** | **(54)** | **(68)** | **(107)** | **(20.6)** | **(49.5)** |

## Ratios and statistics

| | HALF YEAR ENDED | | |
|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 |
| | % | % | % |
| Net interest margin (interest earning assets) | 0.40 | 0.42 | 0.36 |
| Net interest margin (lending assets) | 0.80 | 0.77 | 0.67 |
| Cost to income ratio | 54.1 | 83.7 | 70.2 |
| Impairment losses to gross loans and advances | 3.25 | 2.21 | 2.79 |
| Impairment losses to credit risk weighted assets | 3.63 | 2.39 | 3.07 |

## Loans, advances and other receivables

| | DEC-11 | JUN-11 | DEC-10 | DEC-11 vs JUN-11 | DEC-11 vs DEC-10 |
|---|---|---|---|---|---|
| | $M | $M | $M | % | % |
| Corporate | 1,215 | 1,600 | 1,959 | (24.1) | (38.0) |
| Development finance | 1,848 | 2,132 | 2,981 | (13.3) | (38.0) |
| Property investment | 2,350 | 3,176 | 3,967 | (26.0) | (40.8) |
| Lease finance | 249 | 407 | 597 | (38.8) | (58.3) |
| Non-core portfolio [(1)] | 5,662 | 7,315 | 9,504 | (22.6) | (40.4) |
| Other receivables [(2)] | 1,776 | 2,190 | 2,604 | (18.9) | (31.8) |
| **Gross banking loans, advances and other receivables** | 7,438 | 9,505 | 12,108 | (21.7) | (38.6) |
| Provision for impairment | (433) | (444) | (479) | (2.5) | (9.6) |
| **Loans, advances and other receivables** | **7,005** | **9,061** | **11,629** | **(22.7)** | **(39.8)** |
| **Credit risk weighted assets** | **6,660** | **8,778** | **10,987** | **(24.1)** | **(39.4)** |

(1) From 31 December 2011, Loans and advances in the Non-core portfolio have been adjusted to reflect interest not brought to account, which was previously reported under "Other receivables". This restatement has reduced Loans and advances in the Non-core portfolio by $429 million in June 2011 and $316 million in December 2010.

(2) Other receivables are primarily collateral deposits provided to derivative counterparties.

Non-core run-off was $1.6 billion for the half, reducing the portfolio to $5.7 billion. Non-core portfolio balances have been restated to reflect ‘interest not brought to account’. Prior period comparators have also been adjusted to reflect this change.

## Business Portfolios

### Corporate lending

The corporate lending book has continued to run off ahead of expectations, reducing by $0.4 billion since June 2011 to $1.2 billion. The portfolio included $0.1 billion of impaired assets.

Refinance markets are generally robust in this segment of the portfolio, although appetite remains exposure-specific. Many customers have favourable pricing terms and this has discouraged refinancing.

### Development finance

The balance of development finance loans continues to decline, reducing a further $0.3 billion since June 2011 to $1.8 billion.

The performing exposures have now matured through their construction risk phase. Conditions in the development finance property markets remain difficult with excess supply in some areas, particularly for higher-end product and vacant land. Sale opportunities are available for completed projects.

The portfolio includes $1.3 billion of impaired assets across a combination of asset classes, including vacant land and a small number of assets which carry continuing development risk.

### Property investment

Property investment includes assets such as shopping centres, commercial offices, and industrial warehouses and excludes construction projects.

Since June 2011, property investment loans have reduced by $0.8 billion to $2.4 billion. The portfolio includes $0.7 billion of impaired assets.

With vacancy rates remaining at relatively low levels, appetite has slowly improved for investors and financiers in this segment. Loan to valuation ratios following property price depreciation does constrain refinance activity. However, purchasers are showing interest in acquiring quality properties in proven locations.

### Lease finance

In line with the natural portfolio amortisation, the lease finance receivables balance reduced to $0.2 billion from $0.4 billion in June 2011.

## Non-core Bank funding composition

| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| **Wholesale funding** | | | | | |
| *Domestic funding sources* | | | | | |
| Short-term wholesale | 2,140 | 2,420 | 1,528 | (11.6) | 40.1 |
| Long-term wholesale | 3,153 | 3,566 | 4,962 | (11.6) | (36.5) |
| Subordinated notes | 40 | 47 | 162 | (14.9) | (75.3) |
| Reset preference shares | 7 | 28 | 50 | (75.0) | (86.0) |
| Convertible preference shares | 172 | 204 | 250 | (15.7) | (31.2) |
| | 5,512 | 6,265 | 6,952 | (12.0) | (20.7) |
| *Overseas funding sources* [(1)] | | | | | |
| Short-term wholesale | 446 | 1,237 | 598 | (63.9) | (25.4) |
| Long-term wholesale | 3,202 | 3,947 | 6,041 | (18.9) | (47.0) |
| Subordinated notes | 118 | 188 | 237 | (37.2) | (50.2) |
| | 3,766 | 5,372 | 6,876 | (29.9) | (45.2) |
| **Total funding** | **9,278** | **11,637** | **13,828** | **(20.3)** | **(32.9)** |
| **Total funding is represented on the balance sheet by:** | | | | | |
| Short-term borrowings | 2,586 | 3,657 | 2,126 | (29.3) | 21.6 |
| Bonds, notes and long-term borrowings | 6,355 | 7,513 | 11,003 | (15.4) | (42.2) |
| Subordinated notes | 158 | 235 | 399 | (32.8) | (60.4) |
| Preference shares | 179 | 232 | 300 | (22.8) | (40.3) |
| **Total funding (including securitisation)** | **9,278** | **11,637** | **13,828** | **(20.3)** | **(32.9)** |

(1) Foreign currency borrowings are hedged back into Australian dollars.

## Wholesale funding instruments maturity profile

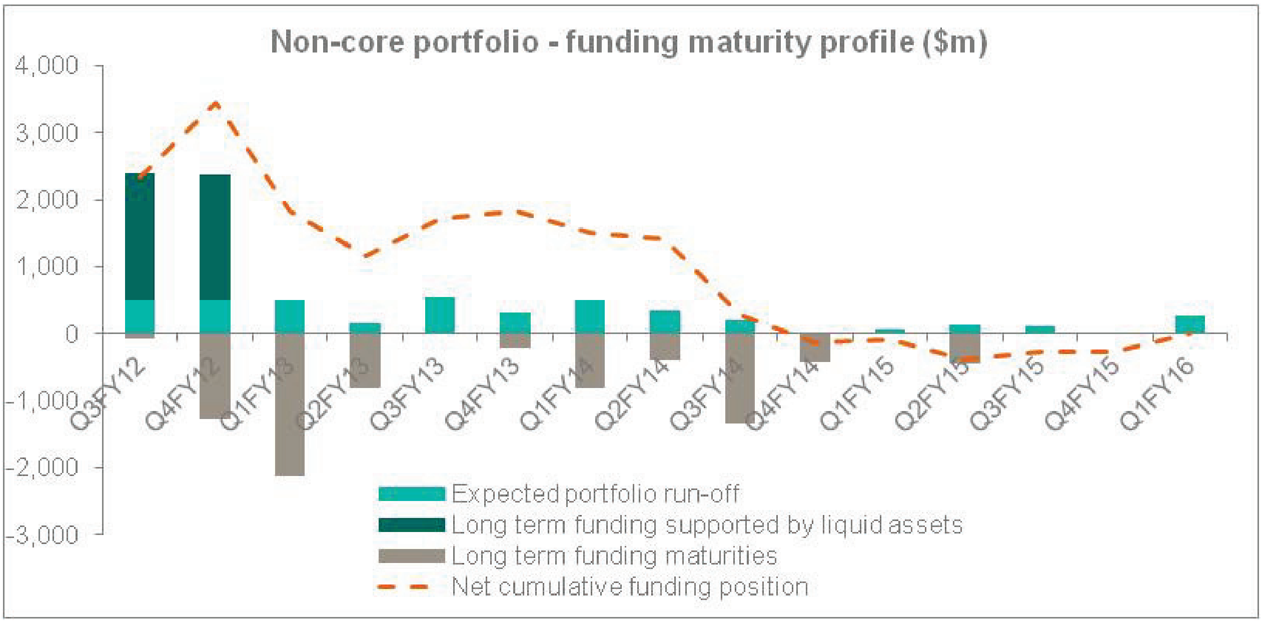
| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| **Maturity** | | | | | |
| 0 to 3 months | 2,352 | 3,949 | 2,323 | (40.4) | 1.2 |
| 3 to 6 months | 1,558 | 920 | 3,471 | 69.3 | (55.1) |
| 6 to 12 months | 2,179 | 1,097 | 1,037 | 98.6 | 110.1 |
| 1 to 3 years | 2,970 | 5,421 | 6,689 | (45.2) | (55.6) |
| 3+ years | 219 | 250 | 308 | (12.4) | (28.9) |
| Total wholesale funding instruments | 9,278 | 11,637 | 13,828 | (20.3) | (32.9) |

The Bank has maintained its strategy of match funding the non-core book, taking a conservative approach to refinancing risk through to portfolio maturity.

Total wholesale funding across the Bank has been apportioned to the core and non-core portfolios, enabling the separate identification and management of balance sheet and funding risk. The asset maturity profile of the non-core portfolio has been modelled based upon expected run-off over time, taking into account individual account management plans and repayment profiles, together with a management allowance for individual account extension risk. From this, a liability profile has been constructed based on the following principles:

- The non-core portfolio is to be positively funded to maturity;
- Short term funding is to fund liquid assets only; and
- Liquid assets are to be maintained to ensure adequate pay down of maturities as and when they occur.

The chart below illustrates the cumulative funding position of the Non-core Bank, showing that the portfolio remains positively funded to maturity. The chart illustrates that the majority of future long term funding maturities is already supported by the holding of liquid assets with over 100% coverage for maturities till the end of the 2012 calendar year. As a result of the Non-core Bank's strong cash position held to fund future maturities, the Bank was able to complete a $1 billion buy-back of Domestic Government Guaranteed Senior Debt in January 2012.




The Non-core portfolio continues to hold excess liquid assets over prudential requirements and these will effectively pre-fund upcoming maturities.

## Net interest income

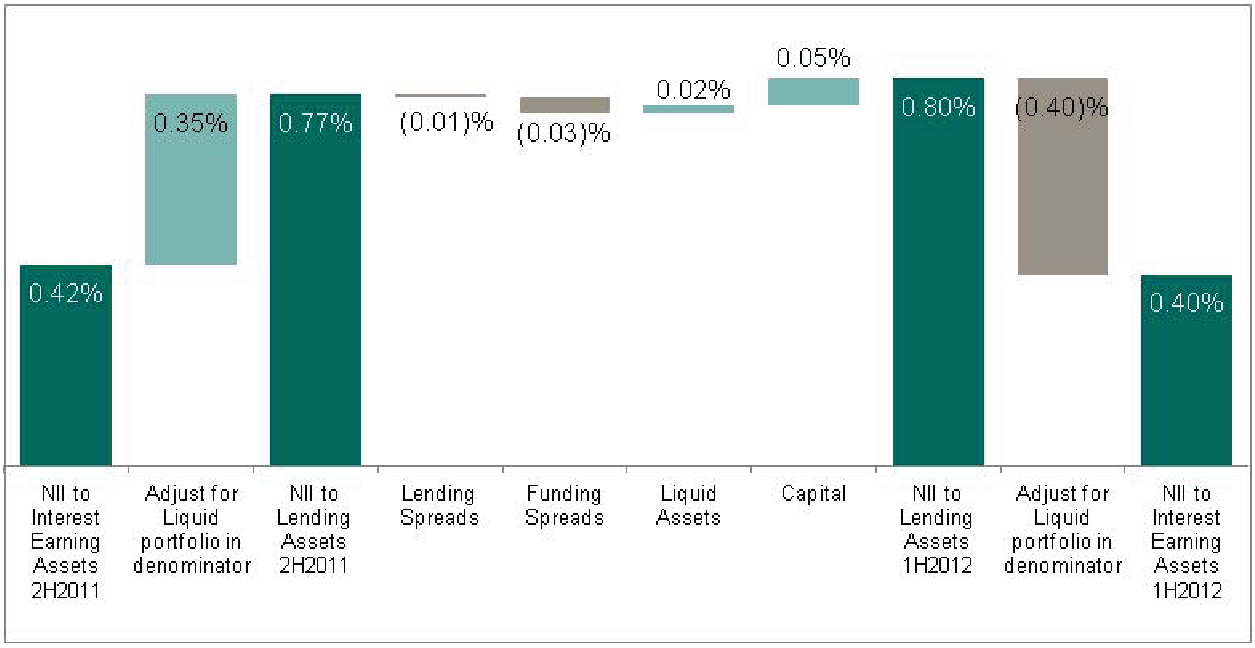
| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Interest revenue lending assets | 269 | 357 | 447 | (24.6) | (39.8) |
| Interest revenue other assets | 172 | 189 | 230 | (9.0) | (25.2) |
| Interest expense deposits and funding | (413) | (511) | (639) | (19.2) | (35.4) |
| **Net interest income** | **28** | **35** | **38** | **(20.0)** | **(26.3)** |
| **Net interest margin (interest earning assets)** | **0.40%** | **0.42%** | **0.36%** | | |
| **Net interest margin (lending assets)** | **0.80%** | **0.77%** | **0.67%** | | |

Net interest income (NII) was $28 million. The result benefited from the recovery of interest not brought to account from impaired assets of $18 million. This result is higher than would be expected on an underlying basis. The recovery of interest from impaired assets is, by its nature, irregular and may cause fluctuations in the net interest income in future periods.

The underlying net interest income continues to trend down as the portfolio runs off. The Non-core Bank also has a higher ratio of impaired assets in the portfolio, where interest is not brought to account. This has a significant impact on net interest income and will continue to do so until the market for realisation of these exposures improves.

For the half year to 31 December 2011, the net interest margin as measured against average interest earning assets was 0.40%, and the net interest margin as measured against average lending assets was 0.80%. The extent of the difference between the two ratios reflects the Bank's conservative approach to liquidity management, with higher liquid asset balances diluting the margin on average interest earning assets.

### Net interest margin movements




Since June 2011, the Non-core Bank's net interest margin to lending assets increased by 3 basis points.

Overall lending spreads eased by one basis point in the half driven by the ongoing impact of the impaired portfolio. Holding impaired assets represents a net interest expense to the Non-core Bank. Lending spreads therefore decline as the impaired portfolio increases as a proportion of the total book. This trend was partially offset by increases in facility pricing and interest recoveries on a small number of impaired exposures.

The weighted average cost of funding increased as lower cost long term wholesale funding matured during the half. This trend compressed the net interest margin by three basis points. A higher proportion of the impaired assets in the portfolio is also reflected in higher levels of capital and other non-interest liabilities such as provisions and capital held to support regulatory deductions. This has positively supported the net interest margin during the period.

## Non-interest income

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Net banking fee income | 7 | 10 | 21 | (30.0) | (66.7) |
| Other non-interest income | 26 | (2) | (2) | n/a | n/a |
| | **33** | **8** | **19** | **312.5** | **73.7** |

Non-core net banking fee income was $7 million for the half. Fee revenue is expected to continue to reduce as receivables balances decline.

Other non-interest income was $26 million for the half which includes the $34.5 million profit on disposal of a joint venture interest in the Polaris Data Centre. This was offset by the loss on sale of several Non-core lending assets as well as the impact of the early buy-back of Government Guarantee debt in August 2011.

## Operating expenses

Operating expenses for the Non-core portfolio were $33 million, down 17.5%.

The Bank has continued its program of cost extraction, reducing the cost base associated with the management of the portfolio, namely direct management and servicing costs. It is anticipated that the cost management program will continue to lag portfolio run-off.

Operating expenses in the half included restructuring costs of over $2.5 million. These costs are necessary to extract cost savings, but will only provide benefits in future periods.

## Impairment losses on loans and advances

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Collective provision for impairment | (5) | (9) | (31) | (44.4) | (83.9) |
| Specific provision for impairment | 115 | 106 | 191 | 8.5 | (39.8) |
| Actual net write-offs | 12 | 7 | 10 | 71.4 | 20.0 |
| | **122** | **104** | **170** | **17.3** | **(28.2)** |
| **Impairment losses to credit risk weighted assets (annualised)** | **3.63%** | **2.39%** | **3.07%** | | |

Impairment losses totaled $122 million.

Despite stabilising over recent periods, current economic circumstances continue to drive caution in the market. Consequently, impaired exposures have seen an extension to their workout periods. These extensions delay the run-off of the impaired assets and result in higher impairment loss charges. During the half these charges amounted to $58 million. The first half result also included a $20 million increase in specific provisions against two existing impaired exposures. The remaining charge related predominantly to increased specific provisions on existing, rather than newly impaired assets.

## Impaired asset balances

| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| **Gross balances of individually impaired loans** | | | | | |
| with specific provisions set aside | 2,138 | 2,202 | 2,337 | (2.9) | (8.5) |
| without specific provisions set aside | 25 | 33 | - | (24.2) | n/a |
| Gross impaired assets | 2,163 | 2,235 | 2,337 | (3.2) | (7.4) |
| Specific provision for impairment | (342) | (348) | (374) | (1.7) | (8.6) |
| **Net impaired assets** | 1,821 | 1,887 | 1,963 | (3.5) | (7.2) |
| **Size of gross impaired assets** | | | | | |
| Less than one million | 10 | 8 | 16 | 25.0 | (37.5) |
| Greater than one million but less than ten million | 192 | 213 | 229 | (9.9) | (16.2) |
| Greater than ten million | 1,961 | 2,014 | 2,092 | (2.6) | (6.3) |
| | 2,163 | 2,235 | 2,337 | (3.2) | (7.4) |
| **Past due loans not shown as impaired assets** | 226 | 125 | 107 | 80.8 | 111.2 |
| **Gross non-performing loans** | 2,389 | 2,360 | 2,444 | 1.2 | (2.3) |
| **Analysis of movements in gross individually impaired assets** | | | | | |
| Balance at the beginning of the half year | 2,235 | 2,337 | 1,972 | (4.4) | 13.3 |
| Recognition of new impaired assets | 88 | 203 | 713 | (56.7) | (87.7) |
| Increases in previously recognised impaired assets | 19 | 27 | 15 | (29.6) | 26.7 |
| Impaired assets written off/sold during the half year | (46) | (45) | (159) | 2.2 | (71.1) |
| Impaired assets which have been reclassed as performing assets or repaid | (133) | (287) | (204) | (53.7) | (34.8) |
| **Balance at the end of the half year** | **2,163** | **2,235** | **2,337** | **(3.2)** | **(7.4)** |

Non-core gross impaired assets were $2.16 billion, down from $2.24 billion at June 2011.

The rate of significant new impairments has slowed with only two new medium-sized exposures added in the first half. The market for distressed assets remains cautious and is some way from a full recovery. These conditions are expected to continue, adding uncertainty to the workout periods for impaired accounts.

Past due loans not shown as impaired have increased to $226 million. This increase relates to one single name commercial investment exposure that has been on the watchlist for some time and is at risk of becoming impaired in the near term.

## Provision for impairment

| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| **Collective provision** | | | | | |
| Balance at the beginning of the period | 96 | 105 | 136 | (8.6) | (29.4) |
| Charge against contribution to profit | (5) | (9) | (31) | (44.4) | (83.9) |
| Balance at the end of the period | 91 | 96 | 105 | (5.2) | (13.3) |
| **Specific provision** | | | | | |
| Balance at the beginning of the period | 348 | 374 | 434 | (7.0) | (19.8) |
| Charge against impairment losses | 115 | 106 | 191 | 8.5 | (39.8) |
| Write-off of impaired assets | (47) | (54) | (179) | (13.0) | (73.7) |
| Unwind of interest | (74) | (78) | (72) | (5.1) | 2.8 |
| Balance at the end of the period | 342 | 348 | 374 | (1.7) | (8.6) |
| **Total provision for impairment - Banking activities** | 433 | 444 | 479 | (2.5) | (9.6) |
| **Equity reserve for credit loss** | | | | | |
| Balance at the beginning of the period | 83 | 90 | 142 | (7.8) | (41.5) |
| Transfer (to)/from retained earnings | (14) | (7) | (52) | 100.0 | (73.1) |
| Balance at the end of the period | 69 | 83 | 90 | (16.9) | (23.3) |
| Pre-tax equivalent coverage | 98 | 118 | 128 | (16.9) | (23.4) |
| **Total provision for impairment and equity reserve for credit loss coverage - Non-core Banking activities** | 531 | 562 | 607 | (5.5) | (12.5) |

| | % | % | % |
|---|---|---|---|
| **Provision for impairment expressed as a percentage of gross impaired assets are as follows:** | | | |
| Collective provision | 4.2 | 4.3 | 4.5 |
| Specific provision | 15.8 | 15.6 | 16.0 |
| Total provision | 20.0 | 19.9 | 20.5 |
| Equity reserve for credit loss coverage | 4.5 | 5.3 | 5.5 |
| Total provision and equity reserve for credit loss coverage | 24.5 | 25.1 | 26.0 |

The Bank remains appropriately provisioned and capitalised. The provision coverage has remained stable over the half and reflects the lengthy seasoning in this portfolio that has been closed to new business for three and a half years.

The Bank is managing impaired asset workouts in a controlled manner to maximise shareholder value.

## Average banking balance sheet

| | HALF YEAR ENDED DEC-11 | | | HALF YEAR ENDED JUN-11 | | |
|---|---|---|---|---|---|---|
| | AVERAGE BALANCE $M | INTEREST $M | AVERAGE RATE % | AVERAGE BALANCE $M | INTEREST $M | AVERAGE RATE % |
| **ASSETS** | | | | | | |
| **Interest earning assets** | | | | | | |
| Financial assets | 7,067 | 173 | 4.86 | 7,599 | 189 | 5.02 |
| Gross loans, advances and other receivables | 6,929 | 268 | 7.67 | 9,186 | 353 | 7.75 |
| Other interest earning assets | - | - | - | 161 | 4 | 5.01 |
| Total interest earning assets | 13,996 | 441 | 6.25 | 16,946 | 546 | 6.50 |
| **Non-interest earning assets** | | | | | | |
| Other assets (inc. loan provisions) | (933) | | | (961) | | |
| Total non-interest earning assets | (933) | | | (961) | | |
| **TOTAL ASSETS** | 13,063 | | | 15,985 | | |
| **LIABILITIES** | | | | | | |
| **Interest bearing liabilities** | | | | | | |
| Wholesale liabilities | 11,652 | 402 | 6.84 | 14,160 | 495 | 7.05 |
| Debt capital | 382 | 11 | 5.71 | 568 | 16 | 5.68 |
| Total interest bearing liabilities | 12,034 | 413 | 6.81 | 14,728 | 511 | 7.00 |
| **Non-interest bearing liabilities** | | | | | | |
| Other liabilities | - | | | - | | |
| Total non-interest bearing liabilities | - | | | - | | |
| **TOTAL LIABILITIES** | 12,034 | | | 14,728 | | |
| **AVERAGE SHAREHOLDERS' EQUITY** | 1,029 | | | 1,257 | | |
| Non-Shareholder Accounting Equity | - | | | 10 | | |
| Average Shareholder Equity | 1,029 | | | 1,267 | | |
| SGL Goodwill allocated to Banking Business | - | | | - | | |
| **AVERAGE SHAREHOLDERS' EQUITY (ex Goodwill)** | 1,029 | | | 1,267 | | |
| **Analysis of interest margin and spread** | | | | | | |
| Interest earning assets | 13,996 | 441 | 6.25 | 16,946 | 546 | 6.50 |
| Interest bearing liabilities | 12,034 | 413 | 6.81 | 14,728 | 511 | 7.00 |
| **Net interest spread** | | | (0.56) | | | (0.50) |
| **Net interest margin (interest earning assets)** | 13,996 | 28 | 0.40 | 16,946 | 35 | 0.42 |
| **Net interest margin (lending assets)** | 6,929 | 28 | 0.80 | 9,186 | 35 | 0.77 |

# Life

## Result overview

Suncorp Life is a trans-Tasman life insurance specialist offering life insurance and superannuation products through Independent Financial Advisers (IFAs) and direct to Suncorp customers via Group brands.

Net profit after tax of $133 million was up 118% with underlying profit, excluding divested businesses, up 15% for the half year to $69 million. Market adjustments contributed $64 million. Individual in-force premium grew 8% to $693 million and Embedded Value (EV) was up 4% to $2,465 million.

Life Risk profit after tax was $46 million, up 21%. This is comprised of planned profit margin release of $47 million and underlying investment income of $23 million. Economic uncertainty and negative consumer sentiment continues to impact the industry and has contributed to an adverse experience of $20 million. Disability claims ($12 million) and lapse ($8 million) experience has improved on the prior corresponding period as a result of business initiatives.

Good progress has been made against the strategy to grow intermediated and direct distribution channels. Individual Life Risk new business was $51 million, up 11% on the prior corresponding period, driven by growth in:

- IFA Australia was $30 million, up 7% on the prior corresponding period.
- Direct Distribution was $15 million, up 36% on the prior corresponding period, from both sales direct to Suncorp Group customers and sales through Suncorp channels.
- New Zealand new business was flat at $7 million, despite a year of regulatory change and natural disasters.

Superannuation new business sales were $187 million, up 11% on the prior corresponding period, due to increased sales via the Suncorp channels. Superannuation profit after tax of $23 million was up 5%. Funds under Administration (FUA) of $7.3 billion were down 42%, due to the divested businesses and investment market volatility, leading to reduced fee income.

The Value of One Year's Sales (VOYS) is forecast to be $54 million for the full year, with $20 million of new business in the first half included in the EV.

Operating expenses were down 12% at $137 million, despite investment in the growth in distribution and delivery of significant simplification initiatives such as the merging of the Australian life businesses, Asteron Life Limited and Suncorp Life & Superannuation Limited. Expenses were favourably impacted by the divested businesses.

## Outlook

Suncorp Life remains confident in its strategy to grow the intermediated and direct distribution channels and increase the value of its in-force book over the longer term.

The extent of that growth, however, will be challenged by an anticipated sustained period of low economic growth that will impact the industry as a whole. In particular, continuing global and domestic uncertainty flows through to customer retention (lapses), claims and discretionary contributions to superannuation. Life's response is to focus on the controllable levers, including initiatives around proactive customer engagement and the ongoing simplification of operations.

A critical simplification initiative following the divestments announced in 2010 was the merging of the Australian life businesses, Asteron Life Limited and Suncorp Life & Superannuation Limited, which enables greater focus on capital efficiency during the period ahead.

The business is well placed to meet regulatory changes that are expected to challenge the industry in both superannuation and life insurance, with anticipated industry-wide impacts to operations and advisers from MySuper, Superstream and Future of Financial Advice (FOFA). In particular, Suncorp Life has been simplifying its superannuation offer since 2009, and is well placed to adopt mandated MySuper and

Superstream changes. The outcomes of these legislative reforms remain unclear, however, and Life is limited in how much it can prepare until the exact nature of the intended change is known.

Suncorp Life aspires to a leadership position in its chosen markets of intermediated and direct distribution and its focus on new business growth continues. In the first half, Asteron rebranded in Australia as Asteron Life in the lead-up to the launch of a refreshed offer, including product, service and technology enhancements to the IFA market in the early part of 2012. In addition to securing Asteron Life's position as a leading life insurance specialist with advisers and AFSLs[1], the refreshed offer will support continued momentum and growth relative to market.

In the less capital intensive channel of Direct, the One Company, Many Brands approach is unlocking the value of the customer base. Sales momentum with the launch of new products to Suncorp, GIO, AAMI and Apia customers has been positive. Importantly, the successful leverage of brand equity that is attracting new customers to the Group is expected to continue. In Superannuation, the coming year will also see Suncorp Life further deepen its offer to the Group's customer base.

Embedded Value experience assumptions will be reviewed at the full year (unless a material change arises prior).

## Profit contribution

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Life Risk | | | | | |
| Planned profit margin release (1) | 47 | 48 | 47 | (2.1) | - |
| Death claims experience | - | 2 | 1 | (100.0) | (100.0) |
| Disability claims experience | (12) | (5) | (15) | 140.0 | (20.0) |
| Lapse experience | (8) | (8) | (13) | - | (38.5) |
| Other expenses | (4) | (7) | (4) | (42.9) | - |
| Underlying investment income | 23 | 24 | 22 | (4.2) | 4.5 |
| **Life Risk** | **46** | **54** | **38** | **(14.8)** | **21.1** |
| Superannuation & Investments | 23 | 17 | 22 | 35.3 | 4.5 |
| **Total Life underlying profit excluding Divested Businesses** | **69** | **71** | **60** | **(2.8)** | **15.0** |
| Divested Businesses (2) | - | 5 | 11 | (100.0) | (100.0) |
| **Total Life underlying profit after tax** | **69** | **76** | **71** | **(9.2)** | **(2.8)** |
| Market adjustments | | | | | |
| Annuities market adjustments | (6) | (5) | 3 | 20.0 | n/a |
| Life Risk policy liability discount rate changes (3) | 62 | 14 | (12) | 342.9 | n/a |
| Investment income experience | 8 | 3 | (1) | 166.7 | n/a |
| **Market adjustments** | **64** | **12** | **(10)** | **433.3** | **n/a** |
| **Net profit after tax and including non-controlling interests** | **133** | **88** | **61** | **51.1** | **118.0** |

(1) Planned profit margin release includes the unwind of policy liabilities which refers to the profit impact of changes in the value of policy liabilities due to the passing of time.

(2) Divested businesses include Asset Management and New Zealand Guardian Trust.

(3) Risk-free rates are used to discount Life Risk policy liabilities. Due to deferred acquisition costs there are net negative policy liabilities (an asset). An increase in discount rates leads to a loss whilst a decrease leads to a gain.

[1] Asteron Life is Core Data's Life Company of the Year 2011 for the third consecutive year. (CoreData is a specialist financial services research, consulting and panel business.) NMG ranks Asteron Life no. 1 with the leading 'Top 250' advisers and Australian Financial Service Licence (AFSL)s in Australia. (NMG Consulting conducts an annual survey of the Life Insurance market to assess the competitiveness of the top eleven insurers. This survey aims to capture the views of the IFA channel.)

## Market adjustments

Suncorp Life net profit after tax can be significantly impacted by investment market volatility. To provide greater visibility to the underlying performance of the business, Suncorp Life has chosen to present an underlying profit after tax result which removes investment market volatility.

Underlying profit after tax is arrived at by removing the following items from net profit after tax:

### Annuities market adjustments

Market referenced discount rates are used to discount the liability to make future payments to annuitants. Changes in market rates change the value of this liability. Invested assets are held to back future annuity obligations. Annuities market adjustments refers to the mismatch between movements in the value of the liabilities and movements in the value of the assets backing those liabilities.

### Life Risk policy liability discount rate changes

Market referenced discount rates are used to discount Life Risk policy liabilities. Due to deferred acquisition costs there are net negative policy liabilities (an asset). Changes in market rates change the value of these liabilities (or assets, as in this case).

### Investment income experience

Investment income experience represents the difference between actual shareholder investment income on invested shareholder assets and underlying investment income. Underlying investment income has been derived by applying long-term expected earning rates, consistent with those used in the prior period Embedded Value calculations, to actual invested shareholder assets.

## Shareholder investment income

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Shareholder investment income on invested assets | 38 | 35 | 29 | 8.6 | 31.0 |
| Less underlying investment income: | - | - | - | | |
| Life Risk | (23) | (24) | (22) | (4.2) | 4.5 |
| Superannuation & Investments | (7) | (8) | (7) | (12.5) | - |
| Divested Businesses | - | - | (1) | n/a | (100.0) |
| **Investment income experience** | **8** | **3** | **(1)** | **166.7** | **n/a** |

Investment income experience represents the difference between actual shareholder investment income on invested assets and underlying investment income. Underlying investment income has been derived by applying long-term expected earning rates, consistent with those used in the prior period Embedded Value calculations, to actual shareholder assets.

## Operating Expenses

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Total operating expenses** (1) | **137** | **144** | **155** | **(4.9)** | **(11.6)** |

(1) Consistent with prior disclosures, sales commissions have been excluded from total operating expenses.

Operating expenses were down 12% at $137 million, despite investment in distribution and significant simplification initiatives. Expenses were favourably impacted by the divested businesses. Suncorp Life will continue to invest for growth with an ongoing focus on simplification.

## Statement of assets and liabilities

| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| **Total Assets** | | | | | |
| **Assets** | | | | | |
| Invested assets | 4,758 | 5,058 | 4,989 | (5.9) | (4.6) |
| Assets backing annuity policies | 139 | 134 | 135 | 3.7 | 3.0 |
| Assets backing participating policies | 2,379 | 2,313 | 2,409 | 2.9 | (1.2) |
| Reinsurance ceded | 391 | 339 | 341 | 15.3 | 14.7 |
| Assets classified as held for sale | - | - | 118 | n/a | (100.0) |
| Other assets | 260 | 407 | 281 | (36.1) | (7.5) |
| Goodwill and intangible assets | 688 | 707 | 734 | (2.7) | (6.3) |
| | **8,615** | **8,958** | **9,007** | **(3.8)** | **(4.4)** |
| **Liabilities** | | | | | |
| Payables | 187 | 254 | 159 | (26.4) | 17.6 |
| Outstanding claims liabilities | 178 | 167 | 156 | 6.6 | 14.1 |
| Deferred tax liabilities | 61 | 60 | 84 | 1.7 | (27.4) |
| Liabilities classified as held for sale | - | - | 12 | n/a | (100.0) |
| Policy liabilities | 5,178 | 5,621 | 5,650 | (7.9) | (8.4) |
| Unvested policyholder benefits [1] | 405 | 383 | 452 | 5.7 | (10.4) |
| | **6,009** | **6,485** | **6,513** | **(7.3)** | **(7.7)** |
| **Total Net Assets** | **2,606** | **2,473** | **2,494** | **5.4** | **4.5** |
| | | | | | |
| **Policyholder assets** | | | | | |
| Invested assets | 3,331 | 3,643 | 3,646 | (8.6) | (8.6) |
| Assets backing annuity policies | 139 | 134 | 135 | 3.7 | 3.0 |
| Assets backing participating policies | 2,379 | 2,313 | 2,409 | 2.9 | (1.2) |
| Deferred tax assets | 27 | 24 | 11 | 12.5 | 145.5 |
| Other assets | 6 | 101 | 60 | (94.1) | (90.0) |
| | **5,882** | **6,215** | **6,261** | **(5.4)** | **(6.1)** |
| **Liabilities** | | | | | |
| Payables | - | - | - | n/a | n/a |
| Policy liabilities | 5,477 | 5,832 | 5,809 | (6.1) | (5.7) |
| Unvested policyholder benefits [1] | 405 | 383 | 452 | 5.7 | (10.4) |
| | **5,882** | **6,215** | **6,261** | **(5.4)** | **(6.1)** |
| **Policyholder Net Assets** | **-** | **-** | **-** | **n/a** | **n/a** |
| | | | | | |
| **Shareholder Assets** | | | | | |
| **Assets** | | | | | |
| Invested assets | 1,427 | 1,415 | 1,343 | 0.8 | 6.3 |
| Reinsurance ceded | 391 | 339 | 341 | 15.3 | 14.7 |
| Assets classified as held for sale | - | - | 118 | n/a | (100.0) |
| Other assets | 254 | 306 | 221 | (17.0) | 14.9 |
| Goodwill and intangible assets | 688 | 707 | 734 | (2.7) | (6.3) |
| | **2,760** | **2,767** | **2,757** | **(0.3)** | **0.1** |
| **Liabilities** | | | | | |
| Payables | 187 | 254 | 159 | (26.4) | 17.6 |
| Outstanding claims liabilities | 178 | 167 | 156 | 6.6 | 14.1 |
| Deferred tax liabilities | 88 | 84 | 95 | 4.8 | (7.4) |
| Liabilities classified as held for sale | - | - | 12 | n/a | (100.0) |
| Policy liabilities | (299) | (211) | (159) | 41.7 | 88.1 |
| | **154** | **294** | **263** | **(47.6)** | **(41.4)** |
| **Shareholder Net Assets** | **2,606** | **2,473** | **2,494** | **5.4** | **4.5** |

(1) Consists of participating business policyholder retained profits.

## Invested shareholder assets[1]

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Cash | 209 | 299 | 240 | (30.1) | (12.9) |
| Fixed interest securities | 1,145 | 1,029 | 1,006 | 11.3 | 13.8 |
| Equities | 66 | 79 | 91 | (16.5) | (27.5) |
| Property | 6 | 7 | 5 | (14.3) | 20.0 |
| Other | 1 | 1 | 1 | - | - |
| **Total** | **1,427** | **1,415** | **1,343** | **0.8** | **6.3** |

(1) Excludes assets backing annuity and participating business.

## Life Risk

Suncorp Life rebranded Asteron as Asteron Life in November, further positioning its key life brand with advisers and AFSLs as an independent life risk specialist. Asteron Life has invested in enhancing its position as a sustainable provider of quality products and partner to dealer groups. A key example is the partnership with Australia's largest investment platform, Colonial First State's FirstChoice, to support advisers in offering Australians quality life insurance cover in superannuation.

These actions are resonating with the market and new business growth continues in Australia. With a new product and technology suite to be launched in early 2012, Suncorp Life expects this growth to continue.

Asteron Life's position in the market has been recognised externally. Asteron Life was named Core Data's [1] Life Company of the Year 2011 for the third consecutive year and ranked the number 1 provider with the 'Top 250' advisers and AFSL's in Australia by NMG.

There is a growing appetite for direct life insurance products and Suncorp is in a unique position to capture this opportunity by taking a One Company, Many Brands approach with the Group customer base in Australia and the AA customer base in New Zealand. Momentum is strong with continued roll out of products and campaigns to the Suncorp, GIO, AAMI and Apia brands.

The economic and market environment continues to place pressure on lapses and claims. Close attention to claims and customer retention initiatives has mitigated some of this impact. This will continue to be a priority focus for the business.

### Life Risk new business by product

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Term and TPD | 23 | 20 | 18 | 15.0 | 27.8 |
| Trauma | 11 | 9 | 10 | 22.2 | 10.0 |
| Disability income | 12 | 11 | 12 | 9.1 | - |
| Other | 5 | 5 | 6 | - | (16.7) |
| **Total Individual** | **51** | **45** | **46** | **13.3** | **10.9** |
| Group [1] | 4 | 10 | 3 | (60.0) | 33.3 |
| **Total** | **55** | **55** | **49** | **-** | **12.2** |

(1) Group new Business includes NZ channel sales.

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1 CoreData is a specialist financial services research, consulting and panel business. NMG Consulting conducts an annual survey of the Life Insurance market to assess the competitiveness of the top eleven insurers. This survey aims to capture the views of the IFA channel.

## Life Risk new business by channel

| | HALF YEAR ENDED DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| IFA | 30 | 28 | 28 | 7.1 | 7.1 |
| Direct [1] | 15 | 12 | 11 | 25.0 | 36.4 |
| Group Risk [2] | 3 | 10 | 3 | (70.0) | - |
| NZ | 7 | 5 | 7 | 40.0 | - |
| **Total** | **55** | **55** | **49** | **-** | **12.2** |

(1) Primarily sales to SUN Group customers through Direct marketing or the Bank.
(2) Group Risk excludes channel sales.

Life Risk new business sales were up 12% to $55 million. In keeping with Suncorp Life's strategy, new business growth has risen 7% in the core Australian IFA distribution channel and growth continues in the direct channel, up 36%. Momentum in the New Zealand market has rebuilt over the half.

## Life Risk in-force annual premium

| | HALF YEAR ENDED DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| Term and TPD | 331 | 317 | 301 | 4.4 | 10.0 |
| Trauma | 138 | 131 | 125 | 5.3 | 10.4 |
| Disability income | 201 | 198 | 194 | 1.5 | 3.6 |
| Other | 23 | 23 | 22 | - | 4.5 |
| **Total Individual** | **693** | **669** | **642** | **3.6** | **7.9** |
| Group [1] | 51 | 149 | 159 | (65.8) | (67.9) |
| **Total** | **744** | **818** | **801** | **(9.0)** | **(7.1)** |
| **Total Australia [1]** | **624** | **701** | **689** | **(11.0)** | **(9.4)** |
| **Total NZ [2]** | **120** | **117** | **112** | **2.6** | **7.1** |

(1) Includes $98m relating to Sunsuper which ceased to be in-force from 1 July 2011.
(2) In-force in NZD: Dec-11 $158m, Jun-11 $152m, Dec-10 $148m.

Individual in-force premium of $693 million represents an 8% uplift on the prior corresponding period. Total in-force premium has been impacted by the loss of Sunsuper.

# Superannuation

The Superannuation business continues to simplify and focus on improving the customer experience, positioning the business well for the superannuation environment.

The economic and market environment continues to place pressure on discretionary superannuation contributions.

## Superannuation new business

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| Superannuation | 145 | 133 | 97 | 9.0 | 49.5 |
| Pensions | 36 | 58 | 58 | (37.9) | (37.9) |
| Investment | 6 | 14 | 13 | (57.1) | (53.8) |
| **Total** | **187** | **205** | **168** | **(8.8)** | **11.3** |

Superannuation new business sales were up 11% at $187 million, with improved performance of the Suncorp channels.

## Funds under administration

| | | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Funds under administration** | | | | | |
| Opening balance at start of period | 7,694 | 12,508 | 12,307 | (38.5) | (37.5) |
| Divested businesses | - | (4,682) | - | (100.0) | n/a |
| Net inflows/(outflows) | (227) | (82) | 48 | 176.8 | n/a |
| Investment income and other | (156) | (50) | 153 | 212.0 | n/a |
| Balance at end of period | **7,311** | **7,694** | **12,508** | **(5.0)** | **(41.5)** |

FUA decreased by 42% to $7.3 billion over the year, impacted by the divested businesses and investment market volatility.

# Life Embedded Value

The Embedded Value of Suncorp Life includes the two Australian life companies (Asteron Life Ltd and Suncorp Life & Superannuation Limited), the New Zealand life company (Asteron Life Limited) and various other legal entities in the Suncorp Life group of companies. Effective 1 January 2012, the two Australian Life companies were merged.

The Embedded Value is the sum of the net present value of all future cashflows distributable to the shareholder that are expected to arise from in-force business, the value of franking credits at 70% of face value and the net assets in excess of target capital requirements (adjusted net worth). The Embedded Value differs from what is known as an Appraisal Value, as it does not consider the value of future new business that the company is expected to write.

## Embedded Value

| | DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| **Adjusted Net Worth** | **48** | **165** | **163** | **(70.9)** | **(70.6)** |
| Value of distributable profits | 2,028 | 1,838 | 1,867 | 10.3 | 8.6 |
| Value of imputation credits | 389 | 374 | 380 | 4.0 | 2.4 |
| **Value of in-force** | **2,417** | **2,212** | **2,247** | **9.3** | **7.6** |
| **Traditional Embedded Value** | **2,465** | **2,377** | **2,410** | **3.7** | **2.3** |
| **Value of one year's sales (VOYS)** | **54** | **27** | **40** | **100.0** | **35.0** |

Note that in relation to the above values:

- the components of value relate to Suncorp Life in its entirety;
- the risk discount rate was equal to 4% above the risk-free rate;
- value of in-force is the present value of distributable profits emerging (in excess of target capital), together with value of associated franking credits; and
- VOYS is a full year forecast and includes an allowance for the cost of holding target capital.

## Change in Embedded Value

The Embedded Value increased by $88 million over the period from $2,377 million at 30 June 2011 to $2,465 million at 31 December 2011. Falls in bond yields, which underpin the risk discount rate, have contributed to the increase, with a partially offsetting reduction due to lower future earning rate assumptions.

The challenging external environment has contributed to adverse lapse and claims experience over the half year in line with our competitors. If the external environment remains challenging and experience trends continue, a strengthening of assumptions would be likely at the full year.

The change in Embedded Value over the current year is shown in more detail below:

| | JUN-11 TO DEC-11 $M |
|---|---|
| **Opening Embedded Value** | **2,377** |
| **Expected return** | 94 |
| **Experience six months to Dec 11** | |
| Economic | (21) |
| Claims, lapse and other | (38) |
| **Future assumption changes** | |
| Discount rate | 246 |
| Economic | (169) |
| Expenses | - |
| Lapses | - |
| Claims and other | (4) |
| **Value added from new business** | 20 |
| **Closing Embedded Value prior to** | **2,505** |
| Dividends/transfers | (6) |
| Release of franking credits | (34) |
| **Closing Embedded Value** | **2,465** |

## Change in Value of One Year's Sales

The VOYS for Suncorp Life has increased from $27 million at 30 June 2011 to a forecast $54 million at 31 December 2011. The increase in VOYS is driven by a combination of favourable sales and controlled expenses. The VOYS reflects forecast discount rates at 30 June 2012.

## Assumptions

The assumptions used for valuing in-force business and the VOYS are based on long-term best estimate assumptions.

Maintenance unit costs were based on assumptions underlying the valuation and were assumed to grow in line with inflation. The valuations do not assume any improvements in future unit costs from efficiency gains beyond the current twelve months. Discontinuance and claims (death and disability) assumptions are best estimate assumptions based on company experience and are consistent with those used for profit reporting.

VOYS calculations are based on forecast new business and acquisition costs for FY12, having regard to both actual sales and expenses over the six months and forecast for the balance of the period. New business includes new policies as well as voluntary increases to existing policies, whereas the Embedded Value includes contractual increases (age and CPI) on retail business but excludes voluntary increases.

The Australian Life Companies are required to hold regulatory capital in excess of policy liabilities. They also hold additional capital ('target surplus') based on internal requirements. Asteron Life Ltd New Zealand holds capital as prescribed in Professional Standard 5 (PS5), 'Solvency Reserving for Life Insurance Business', issued by the New Zealand Society of Actuaries plus additional target surplus capital. In determining the Embedded Value, the value of this capital is discounted based on the expected time that it is to be held, allowing for its release as business runs off.

The Suncorp Life Embedded Value also includes the value of Suncorp Portfolio Services Limited, based on discounted cash flow projections. In addition, a number of smaller entities within the division were valued at net assets.

Economic assumptions are shown below:

| | DEC-11 | | JUN-11 | |
|---|---|---|---|---|
| | AUSTRALIA | NEW ZEALAND | AUSTRALIA | NEW ZEALAND |
| | % PER ANNUM | % PER ANNUM | % PER ANNUM | % PER ANNUM |
| **Investment return for underlying asset classes (gross of tax)** | | | | |
| Risk-free rate (at 10 years) | 3.8 | 3.9 | 5.3 | 5.1 |
| Cash | 4.7 | 4.1 | 6.0 | 5.3 |
| Fixed interest | 4.9 | 4.5 | 6.1 | 5.7 |
| Australian equities (inc. allowance for franking credits) | 9.0 | 8.6 | 10.4 | 9.8 |
| International equities | 8.0 | 7.6 | 9.4 | 8.8 |
| Property | 6.4 | 6.6 | 7.8 | 7.8 |
| **Investment returns (net of tax)** | 3.4 | 3.4 | 4.2 | 4.6 |
| **Inflation** | | | | |
| Benefit indexation | 2.5 | 2.5 | 2.5 | 2.5 |
| Expenses inflation | 3.0 | 2.5 | 3.0 | 2.5 |
| **Risk discount rate** | 7.8 | 7.9 | 9.3 | 9.1 |

## Sensitivity analysis

The tables below set out the sensitivity of the Embedded Value and value of new business as at 31 December 2011 to changes in key economic and business assumptions.

| | AS AT | |
|---|---|---|
| | DEC-11 $M | JUN-11 $M |
| **Base Embedded Value** | **2,465** | **2,377** |
| **Embedded Value assuming** | | |
| Discount rate 1% higher | 2,289 | 2,225 |
| Investment returns 1% higher | 2,598 | 2,473 |
| Discontinuance rates 10% higher | 2,284 | 2,216 |
| Renewal expenses 10% higher | 2,411 | 2,320 |
| Claims 10% higher [(1)] | 2,279 | 2,174 |
| | | |
| **Base value of one year's new business** | **54** | **27** |
| **Value of one year's new business assuming** | | |
| Discount rate 1% higher | 38 | 15 |
| Investment returns 1% higher | 59 | 28 |
| Discontinuance rates 10% higher | 32 | 8 |
| Renewal expenses 10% higher | 48 | 20 |
| Claims 10% higher [(1)] | 27 | 2 |

(1) Claims decrements includes mortality, lump sum morbidity, disability income incidence and 10% worse for disability income recovery rates.

These sensitivities are indicative only as the variations caused by changes to assumptions are not always linear, symmetrical, or independent.

# Appendix 1 – Consolidated statement of comprehensive income

This consolidated income statement presents revenue and expense categories that are reported for statutory purposes.

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Revenue** | | | | | |
| Insurance premium income | 4,093 | 3,929 | 3,945 | 4.2 | 3.8 |
| Reinsurance and other recoveries income | 1,147 | 3,929 | 857 | (70.8) | 33.8 |
| Banking interest income | 2,088 | 2,188 | 2,213 | (4.6) | (5.6) |
| Investment revenue | 467 | 645 | 713 | (27.6) | (34.5) |
| Other income | 312 | 278 | 336 | 12.2 | (7.1) |
| **Total revenue** | 8,107 | 10,969 | 8,064 | (26.1) | 0.5 |
| **Expenses** | | | | | |
| General insurance claims expense | (3,871) | (6,287) | (3,044) | (38.4) | 27.2 |
| Life insurance claims and policyowner liabilities expense | 26 | (278) | (584) | n/a | n/a |
| Outwards reinsurance premium expense | (449) | (621) | (380) | (27.7) | 18.2 |
| Interest expense | (1,647) | (1,734) | (1,798) | (5.0) | (8.4) |
| Fees and commissions expense | (241) | (255) | (230) | (5.5) | 4.8 |
| Operating expenses | (1,280) | (1,312) | (1,342) | (2.4) | (4.6) |
| Impairment expense | (131) | (112) | (213) | 17.0 | (38.5) |
| Loss on sale of subsidiary | - | (3) | (106) | (100.0) | (100.0) |
| Outside beneficial interests in managed funds | (8) | (29) | (3) | (72.4) | 166.7 |
| **Total expenses** | (7,601) | (10,631) | (7,700) | (28.5) | (1.3) |
| **Profit before income tax** | 506 | 338 | 364 | 49.7 | 39.0 |
| Income tax expense | (116) | (108) | (137) | 7.4 | (15.3) |
| **Profit for the period** | **390** | **230** | **227** | **69.6** | **71.8** |
| **Other comprehensive income** | | | | | |
| Net change in fair value of cash flow hedges | 60 | (10) | 70 | n/a | (14.3) |
| Net change in fair value of available-for-sale financial assets | (66) | 35 | (4) | n/a | large |
| Exchange differences on translation of foreign operations | (12) | 12 | (51) | n/a | (76.5) |
| Actuarial (losses) gains on defined benefit plans | - | (11) | - | (100.0) | n/a |
| Income tax expense on other comprehensive income | 2 | - | (21) | n/a | n/a |
| **Other comprehensive income net of income tax** | **(16)** | 26 | (6) | n/a | 166.7 |
| **Total comprehensive income for the period** | **374** | **256** | **221** | **46.1** | **69.2** |
| **Profit for the period attributable to:** | | | | | |
| Owners of the Company | 389 | 230 | 223 | 69.1 | 74.4 |
| Non-controlling interests | 1 | - | 4 | n/a | (75.0) |
| **Profit for the period** | **390** | 230 | 227 | 69.6 | 71.8 |
| **Total comprehensive income for the period attributable to:** | | | | | |
| Owners of the Company | 373 | 256 | 217 | 45.7 | 71.9 |
| Non-controlling interests | 1 | - | 4 | n/a | (75.0) |
| **Total comprehensive income for the period** | **374** | **256** | **221** | **46.1** | **69.2** |
| **Earnings per share:** | | | | | |
| Basic earnings per share | 30.45 | 18.05 | 17.51 | 68.7 | 73.9 |
| Diluted earnings per share | 30.03 | 18.05 | 17.51 | 66.4 | 71.5 |

## Consolidated statement of financial position

| | GENERAL INSURANCE | BANKING | LIFE | CORPORATE | ELIMINATIONS | CONSOLIDATION |
|---|---|---|---|---|---|---|
| | DEC-11 $M | DEC-11 $M | DEC-11 $M | DEC-11 $M | DEC-11 $M | DEC-11 $M |
| **Assets** | | | | | | |
| Cash and cash equivalents | 88 | 297 | 685 | 267 | (106) | 1,231 |
| Receivables due from other banks | - | 159 | - | - | - | 159 |
| Trading securities | - | 3,641 | - | - | - | 3,641 |
| Derivatives | 40 | 330 | 12 | - | (91) | 291 |
| Investment securities | 11,098 | 6,660 | 6,851 | 14,031 | (13,865) | 24,775 |
| Banking loans, advances and other receivables | - | 47,779 | - | - | (40) | 47,739 |
| General Insurance assets | 7,247 | - | - | - | - | 7,247 |
| Life assets | - | - | 586 | - | - | 586 |
| Due from Group entities | 222 | 71 | - | - | (293) | - |
| Property, plant and equipment | 20 | - | 4 | 206 | - | 230 |
| Deferred tax assets | - | 178 | - | 101 | (185) | 94 |
| Other assets | 361 | 279 | 23 | 160 | (106) | 717 |
| Goodwill and intangible assets | 5,256 | 266 | 688 | 85 | - | 6,295 |
| **Total assets** | 24,332 | 59,660 | 8,849 | 14,850 | (14,686) | **93,005** |
| **Liabilities** | | | | | | |
| Deposits and short-term borrowings | - | 39,268 | - | - | (494) | 38,774 |
| Derivatives | 110 | 2,086 | - | - | (91) | 2,105 |
| Payables due to other banks | - | 26 | - | - | - | 26 |
| Payables and other liabilities | 785 | 598 | 126 | 289 | (46) | 1,752 |
| Current tax liabilities | 1 | - | - | 6 | - | 7 |
| Due to Group entities | - | - | 7 | 275 | (282) | - |
| General Insurance liabilities | 14,956 | - | - | - | - | 14,956 |
| Life liabilities | - | - | 5,770 | - | - | 5,770 |
| Deferred tax liabilities | 126 | - | 59 | - | (185) | - |
| Managed funds units on issue | 15 | - | 281 | - | 69 | 365 |
| Securitisation liabilities | - | 4,356 | - | - | (43) | 4,313 |
| Debt issues | - | 8,706 | - | - | (30) | 8,676 |
| Subordinated notes | 698 | 670 | - | - | - | 1,368 |
| Preference shares | - | 760 | - | - | - | 760 |
| **Total liabilities** | 16,691 | 56,470 | 6,243 | 570 | (1,102) | 78,872 |
| **Net assets** | 7,641 | 3,190 | 2,606 | 14,280 | (13,584) | **14,133** |
| **Equity** | | | | | | |
| Share capital | | | | | | 12,665 |
| Reserves | | | | | | 36 |
| Retained profits | | | | | | 1,420 |
| **Total equity attributable to owners of the Company** | | | | | | 14,121 |
| Non-controlling interests | | | | | | 12 |
| **Total equity** | | | | | | **14,133** |

# Appendix 2 – Ratio Calculations

## Earnings per share

### Numerator

| | HALF YEAR ENDED | | |
|---|---|---|---|
| | DEC-11 $M | JUN-11 $M | DEC-10 $M |
| **Earnings:** | | | |
| Earnings used in calculating basic earnings per share | 389 | 230 | 223 |
| Interest expense on convertible preference shares (net of tax) | 21 | - | - |
| Earnings used in calculating diluted earnings per share | 410 | 230 | 223 |

### Denominator

| | HALF YEAR ENDED | | |
|---|---|---|---|
| | DEC-11 NO. OF SHARES | JUN-11 NO. OF SHARES | DEC-10 NO. OF SHARES |
| **Weighted average number of shares:** | | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 1,277,402,775 | 1,274,772,046 | 1,272,704,720 |
| Effect of conversion of convertible preference shares | 87,874,490 | - | - |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | 1,365,277,265 | 1,274,772,046 | 1,272,704,720 |

## Return on average shareholders' equity

### Numerator

Earnings for return on average shareholders' equity is as per 'earnings per share' information above.

### Denominator

| | HALF YEAR ENDED | | |
|---|---|---|---|
| | DEC-11 $M | JUN-11 $M | DEC-10 $M |
| **Adjusted average shareholders' equity** | | | |
| Opening total equity | 14,018 | 13,912 | 13,953 |
| Less non-controlling interests | (17) | (21) | (20) |
| Opening adjusted equity | 14,001 | 13,891 | 13,933 |
| | | | |
| Closing total equity | 14,133 | 14,018 | 13,912 |
| Less non-controlling interests | (12) | (17) | (21) |
| Closing adjusted equity | 14,121 | 14,001 | 13,891 |
| **Average adjusted equity** | **14,061** | **13,946** | **13,912** |

## Issued shares

| | HALF YEAR ENDED | | |
|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 |
| **Ordinary shares each fully paid** | | | |
| Number at the end of the period | 1,286,600,980 | 1,286,600,980 | 1,281,390,524 |
| Dividend declared for the period (cents per share) | 20 | 20 | 15 |
| | | | |
| **Reset preference shares (classified as liability) each fully paid** | | | |
| Number at the end of the period | 304,063 | 1,022,582 | 1,440,628 |
| Dividend declared for the period ($ per share) (1) | 2.55 | 2.51 | 2.55 |
| | | | |
| **Convertible preference shares (classified as liability) each fully paid** | | | |
| Number at the end of the period | 7,350,000 | 7,350,000 | 7,350,000 |
| Dividend declared for the period ($ per share) (1) | 2.86 | 2.87 | 2.82 |

(1) Classified as interest expense.

# Appendix 3 – Group Capital

## Group capital position

The NOHC restructure was approved by shareholders on 15 December 2010 and final capital transactions were executed on 7 January 2011. The intention of the NOHC restructure is to continue to manage capital in accordance with the existing internal capital targets; however, the new Group holding company, Suncorp Group Limited (SGL) may hold some of the capital to meet the internal targets of the operating businesses. Additionally, SGL will hold capital for risks associated with the service companies.

| | AS AT 31 DECEMBER 2011 | | | | |
|---|---|---|---|---|---|
| | GENERAL INSURANCE $M | BANKING $M | LIFE $M | SGL, CORP SERVICES & CONSOL $M | TOTAL $M |
| **Tier 1** | | | | | |
| Ordinary share capital | - | - | - | 12,717 | 12,717 |
| Subsidiary share capital (eliminated upon consolidation) | 7,916 | 3,412 | 2,238 | (13,566) | - |
| Reserves and non-controlling interests | (83) | (987) | 238 | 736 | (96) |
| Retained profits [1] | (264) | 566 | 110 | 750 | 1,162 |
| Preference shares | - | 765 | - | - | 765 |
| Insurance liabilities in excess of liability valuation | 514 | - | - | - | 514 |
| Less goodwill, brands | (5,252) | (265) | (686) | 1 | (6,202) |
| Less software assets | (4) | (1) | (2) | (86) | (93) |
| Less other intangible assets | - | (51) | - | - | (51) |
| Less deferred tax asset | (16) | (146) | (8) | 81 | (89) |
| Less other required deductions [2] | (10) | (8) | - | - | (18) |
| Net Tier 1 capital | 2,801 | 3,285 | 1,890 | 633 | 8,609 |
| **Tier 2** | | | | | |
| Preference shares not included in Tier 1 | - | - | - | - | - |
| APRA general reserve for credit losses | - | 251 | - | - | 251 |
| Asset revaluation reserves | - | - | - | - | - |
| Subordinated notes | 767 | 822 | - | - | 1,589 |
| Net Tier 2 capital | 767 | 1,073 | - | - | 1,840 |
| **Total capital base** | **3,568** | **4,358** | **1,890** | **633** | **10,449** |
| **Represented by:** | | | | | |
| Capital in regulated entities | 3,556 | 4,292 | 1,940 | - | 9,788 |
| Capital in unregulated entities [3] | 12 | 66 | (50) | 633 | 661 |
| | **3,568** | **4,358** | **1,890** | **633** | **10,449** |
| **Target capital base** [4] | 3,055 | 4,098 | 1,922 | 192 | 9,267 |

(1) For Banking and domestic General Insurance, this represents the business line retained profits determined using the APRA calculation. New Zealand General Insurance retained profits are on a statutory basis. APRA required accrual of expected dividends in the Bank and General Insurance current year profits. To allow for consistency across the Group, expected dividends are also included for Life.

(2) Other required deductions include surpluses in defined benefit funds.

(3) Capital in unregulated entities includes capital in authorised NOHCs such as Suncorp Group Limited (SGL).

(4) APRA requires regulated entities to have internal capital targets. For the Banking business, the capital target is a 12.5% capital adequacy ratio. The target capital for the General Insurance business is 1.45 times the Minimum Capital Requirement. The Life business capital target is an amalgamation of target capital for Statutory Funds, minimum capital required for Shareholder Funds and net tangible asset requirements for investment management entities. The NOHC Target is derived from the assessed risk of the Group.

| | AS AT 31 DECEMBER 2011 | | | | |
|---|---|---|---|---|---|
| | GENERAL INSURANCE | BANKING | LIFE | SGL, CORP SERVICES & CONSOL | TOTAL |
| | $M | $M | $M | $M | $M |
| **Reconciliation of total capital base to net assets** | | | | | |
| **Net assets** | 7,641 | 3,190 | 2,606 | 696 | 14,133 |
| **Difference relating to APRA definition of retained profits** | (68) | (56) | (20) | (114) | (258) |
| **Equity items not eligible for inclusion in capital for APRA purposes** | | | | | |
| Reserves (Post AIFRS) | - | 33 | - | - | 33 |
| **Additional items allowable for capital for APRA purposes** | | | | | |
| Preference shares | - | 765 | - | - | 765 |
| Subordinated notes | 767 | 822 | - | - | 1,589 |
| Technical provisions in excess of liability valuation | 514 | - | - | - | 514 |
| Holdings of own shares | (4) | - | (1) | 57 | 52 |
| Collective provision (net of tax effect) | - | 75 | - | - | 75 |
| Other items, adjustments | - | - | 1 | (2) | (1) |
| **Deductions from capital for APRA purposes** | | | | | |
| Goodwill, brands | (5,252) | (265) | (686) | 1 | (6,202) |
| Software assets | (4) | (1) | (2) | (86) | (93) |
| Deductible capitalised expenses | - | (51) | - | - | (51) |
| Deferred tax asset | (16) | (146) | (8) | 81 | (89) |
| Other assets excluded from regulatory capital | (10) | (8) | - | - | (18) |
| **Total capital base** | **3,568** | **4,358** | **1,890** | **633** | **10,449** |

| | AS AT 31 DECEMBER 2011 | | | | |
|---|---|---|---|---|---|
| | GENERAL INSURANCE | BANKING | LIFE | SGL, CORP SERVICES & CONSOL | TOTAL |
| | $M | $M | $M | $M | $M |
| **Reconciliation of business line retained profits to reported retained profits** | | | | | |
| **Reported retained profits (losses)** | (196) | 622 | 130 | 864 | 1,420 |
| Expected group dividend net of Dividend Reinvestment Plan | - | - | - | (257) | (257) |
| Expected intragroup dividends | (68) | (55) | (20) | 143 | - |
| Other differences in retained profits for APRA purposes | - | (1) | - | - | (1) |
| | (68) | (56) | (20) | (114) | (258) |
| **Business line retained profits/(losses) used in Group capital position** | **(264)** | **566** | **110** | **750** | **1,162** |

## Appendix 3 – Group Capital (continued)

## General Insurance minimum capital requirement

| | DOMESTIC GI GROUP [1] | | | GI GROUP [2] | | |
|---|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | DEC-11 | JUN-11 | DEC-10 |
| | $M | $M | $M | $M | $M | $M |
| **Tier 1** | | | | | | |
| Ordinary share capital | 2,347 | 2,347 | 2,758 | 7,916 | 8,016 | 8,086 |
| Reserves and non-controlling interests | 5 | (2) | 5 | (83) | (69) | (75) |
| Retained profits | 763 | 739 | 735 | (264) | (433) | (72) |
| Insurance liabilities in excess of liability valuation | 668 | 709 | 677 | 734 | 737 | 706 |
| Less: Tax effect of excess insurance liabilities | (200) | (213) | (203) | (220) | (221) | (212) |
| | 3,583 | 3,580 | 3,972 | 8,083 | 8,030 | 8,433 |
| Less: | | | | | | |
| Goodwill and other intangible assets | (1,111) | (1,112) | (1,111) | (5,256) | (5,268) | (5,318) |
| Other Tier 1 deductions | (10) | (26) | (93) | (26) | (6) | (12) |
| Total deductions from Tier 1 capital | (1,121) | (1,138) | (1,204) | (5,282) | (5,274) | (5,330) |
| **Net Tier 1 capital** | **2,462** | **2,442** | **2,768** | **2,801** | **2,756** | **3,103** |
| **Tier 2** | | | | | | |
| Subordinated notes | 767 | 769 | 763 | 767 | 769 | 763 |
| **APRA capital base** | **3,229** | **3,211** | **3,531** | **3,568** | **3,525** | **3,866** |
| Outstanding claims risk capital charge | 852 | 801 | 804 | 872 | 823 | 822 |
| Premium liabilities risk capital charge | 425 | 427 | 421 | 456 | 471 | 457 |
| Total insurance risk capital charge | 1,277 | 1,228 | 1,225 | 1,328 | 1,294 | 1,279 |
| Investment risk capital charge | 396 | 436 | 347 | 516 | 553 | 402 |
| Catastrophe risk capital charge | 263 | 263 | 200 | 263 | 263 | 200 |
| **Total minimum capital requirement (MCR)** | **1,936** | **1,927** | **1,772** | **2,107** | **2,110** | **1,881** |
| **MCR coverage (times)** | **1.67** | **1.67** | **1.99** | **1.69** | **1.67** | **2.06** |

| | $M | $M | $M | $M | $M | $M |
|---|---|---|---|---|---|---|
| **Retained profits movement** | | | | | | |
| Retained profits opening for the half year | 739 | 735 | 667 | (433) | (72) | (81) |
| Add General Insurance profit after tax for the half year | 162 | 100 | 292 | 162 | 100 | 292 |
| Add profit after tax of non-regulated entities | (61) | (2) | (7) | - | - | - |
| Add/(less) APRA & consolidation adjustments | (9) | 65 | (67) | (35) | 8 | (133) |
| Less dividends received/(paid) | (68) | (159) | (150) | 42 | (469) | (150) |
| **Retained profits closing for the half year** | **763** | **739** | **735** | **(264)** | **(433)** | **(72)** |

(1) Domestic GI Group - Suncorp's Australian licensed insurers.
(2) GI Group – Suncorp Insurance Holdings Ltd and its subsidiaries.

## Banking capital adequacy

| | DEC-11 $M | JUN-11 $M | DEC-10 $M |
|---|---|---|---|
| **Consolidated banking capital[1]** | | | |
| **Tier 1** | | | |
| **Fundamental Tier 1** | | | |
| Ordinary share capital | 2,189 | 1,789 | 12,787 |
| Retained profits | 533 | 902 | 913 |
| | 2,722 | 2,691 | 13,700 |
| **Residual Tier 1** | | | |
| Reset preference shares | 30 | 103 | 144 |
| Convertible preference shares | 735 | 735 | 735 |
| Preference shares not eligible for inclusion in Tier 1 | - | (15) | - |
| | 765 | 823 | 879 |
| **Tier 1 deductions** | | | |
| Goodwill and other intangibles arising on acquisition | (29) | (29) | (7,690) |
| Software assets | (1) | - | (66) |
| Other intangible assets | (51) | (47) | (107) |
| Deferred tax asset | (143) | (129) | (228) |
| Other required deductions | (8) | - | (1) |
| Tier 1 deductions for investments in subsidiaries, capital support | (18) | (18) | (1,504) |
| | (250) | (223) | (9,596) |
| **Total Tier 1 Capital** | 3,237 | 3,291 | 4,983 |
| | | | |
| **Tier 2** | | | |
| **Upper Tier 2** | | | |
| APRA general reserve for credit losses | 251 | 248 | 275 |
| Perpetual subordinated notes | 170 | 170 | 170 |
| Asset revaluation reserves | - | 17 | 6 |
| Preference shares not eligible for inclusion in Tier 1 | - | 15 | - |
| | 421 | 450 | 451 |
| **Lower Tier 2** | | | |
| Subordinated notes | 652 | 883 | 1,221 |
| | 652 | 883 | 1,221 |
| **Tier 2 Deductions** | | | |
| Tier 2 deductions for investments in subsidiaries, capital support | (18) | (18) | (1,504) |
| | (18) | (18) | (1,504) |
| **Total Tier 2 Capital** | 1,055 | 1,315 | 168 |
| | | | |
| **Capital base** | 4,292 | 4,606 | 5,151 |
| | | | |
| Risk-weighted exposures | 29,336 | 30,993 | 32,873 |
| Market risk capital charge | 387 | 363 | 334 |
| Operational risk capital charge | 3,059 | 3,010 | 3,072 |
| **Total assessed risk** | 32,782 | 34,366 | 36,279 |
| **Risk weighted capital ratio** | 13.09% | 13.40% | 14.20% |
| | | | |
| **Core Equity Tier 1 capital [2]** | **2,453** | **2,450** | **2,600** |
| **Core Equity Tier 1 ratio** | **7.48%** | **7.13%** | **7.17%** |

(1) The consolidated banking group for regulatory reporting is different to the statutory banking group. Therefore this table will differ to the banking group shown in the group tables.

(2) For balance dates prior to the NOHC restructure, numbers reflect Adjusted Fundamental Tier 1 which is an equivalent measure to Core Equity Tier 1 under the NOHC structure.

## Appendix 3 – Group Capital (continued)

### Banking capital adequacy (continued)

| | DEC-11 $M | JUN-11 $M | DEC-10 $M |
|---|---|---|---|
| **Retained profits movement** | | | |
| Retained profits opening for the half year | 902 | 913 | 847 |
| Opening retained profit adjustment | - | (51) | - |
| Add Banking profit after tax for the half year | 102 | 81 | 3 |
| Less profit after tax of entities not consolidated for APRA purposes | 5 | (3) | (3) |
| Add/(less) APRA adjustments | (20) | 8 | 66 |
| Less dividend expense/accrual | (456) | (46) | - |
| **Retained profits closing for the half year** | **533** | **902** | **913** |

## Appendix 4 – Underlying ITR

In May 2010, the Suncorp Group outlined operational strategies and building blocks projects that would drive an improvement of at least 3% in the underlying Insurance Trading Result (ITR) ratio for the year to 30 June 2012. For the year ended 30 June 2010, the underlying ITR ratio was 9% and this increased to 10.8% for the year ending 30 June 2011.

Despite a significant increase in reinsurance costs and falling interest rates, the underlying ITR of 11.1% for the six months to 31 December 2011 is broadly in line with the underlying ITR for the previous six months. The Group expects to achieve an underlying ITR of at least 12% for the second half of 2012 and with then seek to maintain this margin going forward. However, a continuation of reduced investment yields may impact on the Group's ability to deliver an underlying ITR of at least 12% on a full year basis.

For the purposes of the underlying ITR calculation, the Net Earned Premium (NEP) is the reported $3,359 million. The methodology for calculating the underlying ITR is the reported ITR adjusted for the following:

### Reserve releases

The adjustment is the difference between actual reserve releases and the long run average 'expected' release. Based on the Group's conservative approach to reserving, the expected release for an accounting period is calculated to be around 1.5% of Net Earned Premium (NEP).

### Natural hazards

The adjustment for natural hazard claims costs that were $149 million above allowances for the half.

### Investment income mismatch

This adjustment removes the impact of changes in credit spreads and the volatility in the value of index-linked bonds ('economic mismatch' of negative $160 million), together with timing mismatches on premium liabilities ('accounting mismatch' of positive $46 million). There was also a $27 million unwind of the previous accounting mismatch.

### Other adjustments

This adjustment captures any material and abnormal one-off items including material movements in risk margins. For the half year to 31 December 2011, the adjustments were a $22 million impact from risk margins, $7 million for restructuring costs and $28 million for reduced amortisation of deferred acquisition costs related to a liability adequacy test charge in the prior period.

The calculation of the underlying ITR for the six months to 31 December 2011 is displayed below

| | $M | DEC-11 $M | ITR ratio % |
|---|---|---|---|
| **Reported ITR** | | **129** | **3.8%** |
| Reported reserve releases | (54) | | |
| Less: 1.5% of NEP | 50 | (4) | |
| Natural hazards above long-run allowances | | 149 | |
| Investment income mismatch | | 141 | |
| Other: | | | |
| Risk Margin | | (22) | |
| Restructure costs | | 7 | |
| Reduction of deferred acquisition costs | | (28) | |
| **Underlying ITR** | | **372** | **11.1%** |

# Appendix 5 – General Insurance profit – short-tail and long-tail (includes NZ)

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Short-tail** | | | | | |
| Gross written premium | 2,988 | 2,810 | 2,753 | 6.3 | 8.5 |
| Net earned premium | 2,559 | 2,348 | 2,478 | 9.0 | 3.3 |
| Net incurred claims | (1,960) | (1,824) | (1,858) | 7.5 | 5.5 |
| Acquisition expenses | (323) | (355) | (330) | (9.0) | (2.1) |
| Other underwriting expenses | (283) | (291) | (284) | (2.7) | (0.4) |
| Total operating expenses | (606) | (646) | (614) | (6.2) | (1.3) |
| **Underwriting result** | (7) | (122) | 6 | (94.3) | n/a |
| Investment income - insurance funds | 31 | 81 | 69 | (61.7) | (55.1) |
| **Insurance trading result** | 24 | (41) | 75 | n/a | (68.0) |
| | % | % | % | | |
| **Ratios** | | | | | |
| Acquisition expenses ratio | 12.6 | 15.1 | 13.3 | | |
| Other underwriting expenses ratio | 11.1 | 12.4 | 11.5 | | |
| Total operating expenses ratio | 23.7 | 27.5 | 24.8 | | |
| Loss ratio | 76.6 | 77.7 | 75.0 | | |
| Combined operating ratio | 100.3 | 105.2 | 99.8 | | |
| Insurance trading ratio | 0.9 | (1.7) | 3.0 | | |

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Long-tail** | | | | | |
| Gross written premium | 867 | 907 | 810 | (4.4) | 7.0 |
| Net earned premium | 800 | 663 | 788 | 20.7 | 1.5 |
| Net incurred claims | (860) | (642) | (426) | 34.0 | 101.9 |
| Acquisition expenses | (111) | (110) | (117) | 0.9 | (5.1) |
| Other underwriting expenses | (66) | (72) | (64) | (8.3) | 3.1 |
| Total operating expenses | (177) | (182) | (181) | (2.7) | (2.2) |
| **Underwriting result** | (237) | (161) | 181 | 47.2 | n/a |
| Investment income - insurance funds | 342 | 258 | 100 | 32.6 | 242.0 |
| **Insurance trading result** | 105 | 97 | 281 | 8.2 | (62.6) |
| | % | % | % | | |
| **Ratios** | | | | | |
| Acquisition expenses ratio | 13.9 | 16.6 | 14.8 | | |
| Other underwriting expenses ratio | 8.3 | 10.9 | 8.1 | | |
| Total operating expenses ratio | 22.2 | 27.5 | 22.9 | | |
| Loss ratio | 107.5 | 96.8 | 54.1 | | |
| Combined operating ratio | 129.7 | 124.3 | 77.0 | | |
| Insurance trading ratio | 13.1 | 14.6 | 35.7 | | |

# Appendix 6 – General Insurance New Zealand results expressed in NZ$

| | HALF YEAR ENDED DEC-11 NZ$M | JUN-11 NZ$M | DEC-10 NZ$M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|
| Gross written premium | 532 | 454 | 441 | 17.2 | 20.6 |
| Net earned premium | 355 | 208 | 373 | 70.7 | (4.8) |
| Net incurred claims | (256) | (315) | (269) | (18.7) | (4.8) |
| Acquisition expenses | (57) | (137) | (89) | (58.4) | (36.0) |
| Other underwriting expenses | (30) | (33) | (29) | (9.1) | 3.4 |
| Total operating expenses | (87) | (170) | (118) | (48.8) | (26.3) |
| **Underwriting result** | 12 | (277) | (14) | n/a | n/a |
| Investment income - insurance funds | 8 | 12 | 8 | (33.3) | - |
| **Insurance trading result** | 20 | (265) | (6) | n/a | n/a |
| | % | % | % | | |
| **Ratios** | | | | | |
| Acquisition expenses ratio | 16.1 | 65.9 | 23.9 | | |
| Other underwriting expenses ratio | 8.5 | 15.9 | 7.8 | | |
| Total operating expenses ratio | 24.6 | 81.8 | 31.7 | | |
| Loss ratio | 72.1 | 151.4 | 72.1 | | |
| Combined operating ratio | 96.7 | 233.2 | 103.8 | | |
| Insurance trading ratio | 5.6 | (127.4) | (1.6) | | |

# Appendix 7 – General Insurance profit excluding the discount rate movements and FSL

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Gross written premium** [1] | 3,705 | 3,597 | 3,434 | 3.0 | 7.9 |
| Gross unearned premium movement | (107) | (182) | (12) | (41.2) | large |
| Gross earned premium | 3,598 | 3,415 | 3,422 | 5.4 | 5.1 |
| Outwards reinsurance expense | (368) | (525) | (281) | (29.9) | 31.0 |
| **Net earned premium** | 3,230 | 2,890 | 3,141 | 11.8 | 2.8 |
| **Net incurred claims** | | | | | |
| Claims expense | (3,590) | (6,198) | (3,141) | (42.1) | 14.3 |
| Reinsurance and other recoveries revenue | 1,051 | 3,821 | 760 | (72.5) | 38.3 |
| | (2,539) | (2,377) | (2,381) | 6.8 | 6.6 |
| **Total operating expenses** | | | | | |
| Acquisition expenses [2] | (434) | (465) | (447) | (6.7) | (2.9) |
| Other underwriting expenses [2] | (220) | (242) | (223) | (9.1) | (1.3) |
| | (654) | (707) | (670) | (7.5) | (2.4) |
| **Underwriting result** | 37 | (194) | 90 | n/a | (58.9) |
| Investment income - insurance funds | 92 | 250 | 266 | (63.2) | (65.4) |
| **Insurance trading result** | 129 | 56 | 356 | 130.4 | (63.8) |
| Managed schemes net contribution | 2 | 15 | 3 | (86.7) | (33.3) |
| Joint venture and other income | 6 | 4 | 12 | 50.0 | (50.0) |
| General Insurance operational earnings | 137 | 75 | 371 | 82.7 | (63.1) |
| Investment revenue - shareholder funds | 126 | 119 | 87 | 5.9 | 44.8 |
| **General Insurance profit before tax and capital funding** | 263 | 194 | 458 | 35.6 | (42.6) |
| Capital funding [3] | (37) | (46) | (43) | (19.6) | (14.0) |
| **General Insurance profit before tax** | 226 | 148 | 415 | 52.7 | (45.5) |
| **Income tax** | (64) | (48) | (123) | 33.3 | (48.0) |
| **General Insurance profit after tax** | **162** | **100** | **292** | **62.0** | **(44.5)** |

(1) Net of Fire Service Levies (FSL) 31 December 2011, $150 million, 30 June 2011, $120 million, 31 December 2010, $129 million.

(2) Comparative information for New Zealand has been restated to be consistent with the current treatment of expense disclosures between acquisition costs and underwriting expenses.

(3) Includes interest expense on subordinated notes. The capital funding charge for 30 June 2010 includes a gain of $5 million for the redemption of subordinated notes.

| | HALF YEAR ENDED | | |
|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 |
| | % | % | % |
| Acquisition expenses ratio | 13.4 | 16.1 | 14.2 |
| Other underwriting expenses ratio | 6.8 | 8.4 | 7.1 |
| Total operating expenses ratio | 20.2 | 24.5 | 21.3 |
| Loss ratio | 78.6 | 82.2 | 75.8 |
| Combined operating ratio | 98.8 | 106.7 | 97.1 |

# Appendix 8 – Consolidated Bank

## Profit contribution – Consolidated Bank

| | HALF YEAR ENDED | | | | | | |
|---|---|---|---|---|---|---|---|
| | CORE DEC-11 $M | NON-CORE DEC-11 $M | TOTAL DEC-11 $M | TOTAL JUN-11 $M | TOTAL DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
| **Net interest income** | 441 | 28 | 469 | 472 | 438 | (0.6) | 7.1 |
| **Non-interest income** | | | | | | | |
| Net banking fee income | 41 | 7 | 48 | 51 | 67 | (5.9) | (28.4) |
| MTM on financial instruments | 14 | - | 14 | 7 | 3 | 100.0 | 366.7 |
| Other income | 3 | 26 | 29 | - | - | n/a | n/a |
| Total non-interest income | 58 | 33 | 91 | 58 | 70 | 56.9 | 30.0 |
| **Total income from Banking activities** | 499 | 61 | 560 | 530 | 508 | 5.7 | 10.2 |
| **Operating expenses** | (258) | (33) | (291) | (289) | (279) | 0.7 | 4.3 |
| **Consolidated Bank profit before impairment losses on loans and advances** | 241 | 28 | 269 | 241 | 229 | 11.6 | 17.5 |
| Impairment losses on loans and advances | (9) | (122) | (131) | (112) | (213) | 17.0 | (38.5) |
| **Consolidated Bank profit before tax** | **232** | **(94)** | **138** | **129** | **16** | **7.0** | **large** |
| **Income tax** | (76) | 40 | (36) | (48) | (13) | (25.0) | 176.9 |
| **Consolidated Bank profit after tax** | **156** | **(54)** | **102** | **81** | **3** | **25.9** | **large** |

| | HALF YEAR ENDED | | |
|---|---|---|---|
| | DEC-11 % | JUN-11 % | DEC-10 % |
| Net interest margin (interest earning assets) | 1.56 | 1.54 | 1.35 |
| Net interest margin (lending assets) | 1.99 | 1.98 | 1.77 |
| Cost to income ratio | 52.0 | 54.5 | 54.9 |
| Impairment losses to gross loans and advances | 0.54 | 0.46 | 0.83 |
| Impairment losses to Credit risk weighted assets | 0.93 | 0.76 | 1.34 |

## Appendix 8 – Consolidated Bank (continued)

### Statement of financial position – Consolidated Bank

| | CORE DEC-11 $M | NON-CORE DEC-11 $M | TOTAL DEC-11 $M | JUN-11 $M | DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 156 | 141 | 297 | 345 | 833 | (13.9) | (64.3) |
| Receivables due from other banks | 79 | 80 | 159 | 226 | 91 | (29.6) | 74.7 |
| Trading securities | 294 | 3,347 | 3,641 | 4,952 | 4,868 | (26.5) | (25.2) |
| Derivatives | 89 | 241 | 330 | 233 | 350 | 41.6 | (5.7) |
| Investment securities (1) | 5,713 | 947 | 6,660 | 5,742 | 16,566 | 16.0 | (59.8) |
| Bank acceptances from customers | - | - | - | - | 1 | n/a | (100.0) |
| Loans, advances and other receivables | 40,774 | 7,005 | 47,779 | 48,694 | 50,408 | (1.9) | (5.2) |
| Due from group entities | 71 | - | 71 | 159 | 455 | (55.3) | (84.4) |
| Property, plant and equipment | - | - | - | 69 | 106 | (100.0) | (100.0) |
| Deferred tax assets | 76 | 102 | 178 | 182 | 222 | (2.2) | (19.8) |
| Other assets (2) | 242 | 37 | 279 | 265 | 292 | 5.3 | (4.5) |
| Intangible assets (3) | 266 | - | 266 | 264 | 257 | 0.8 | 3.5 |
| Total assets | 47,760 | 11,900 | 59,660 | 61,131 | 74,449 | (2.4) | (19.9) |
| **Liabilities** | | | | | | | |
| Deposits and short-term borrowings | 36,682 | 2,586 | 39,268 | 39,247 | 37,262 | 0.1 | 5.4 |
| Derivatives | 522 | 1,564 | 2,086 | 2,583 | 3,158 | (19.2) | (33.9) |
| Payables due to other banks | 26 | - | 26 | 31 | 18 | (16.1) | 44.4 |
| Bank acceptances | - | - | - | - | 1 | n/a | (100.0) |
| Payables and other liabilities | 598 | - | 598 | 669 | 604 | (10.6) | (1.0) |
| Current tax liabilities | - | - | - | - | 171 | n/a | (100.0) |
| Due to group entities | - | - | - | - | - | n/a | n/a |
| Securitisation liabilities | 4,356 | - | 4,356 | 3,634 | 4,138 | 19.9 | 5.3 |
| Debt issues | 2,351 | 6,355 | 8,706 | 10,151 | 13,042 | (14.2) | (33.2) |
| Subordinated notes | 512 | 158 | 670 | 846 | 1,160 | (20.8) | (42.2) |
| Preference shares | 581 | 179 | 760 | 830 | 871 | (8.4) | (12.7) |
| Total liabilities | 45,628 | 10,842 | 56,470 | 57,991 | 60,425 | (2.6) | (6.5) |
| **Net assets** | **2,132** | **1,058** | **3,190** | **3,140** | **14,024** | **1.6** | **(77.3)** |
| Less: Investment in non-banking subsidiaries | - | - | - | - | 10,704 | n/a | (100.0) |
| **Net assets - banking line of business** | **2,132** | **1,058** | **3,190** | **3,140** | **3,320** | **1.6** | **(3.9)** |
| **Reconciliation of net equity to Core Equity Tier 1 Capital (4)** | | | | | | | |
| **Net equity - Banking line of business** | | | 3,190 | 3,140 | 3,320 | | |
| NOHC restatement | | | - | - | (265) | | |
| Goodwill allocated to Banking Business | | | (235) | (235) | - | | |
| Regulatory capital equity adjustments | | | (58) | (58) | 206 | | |
| Regulatory capital deductions | | | (268) | (241) | (424) | | |
| Other reserves excluded from CET1 ratio | | | (176) | (156) | (237) | | |
| **Core Equity Tier 1 Capital** | | | **2,453** | **2,450** | **2,600** | | |

(1) The December 2010 balances include the investment in non-banking subsidiaries, as Suncorp-Metway Ltd, an entity within the Consolidated Banking group, was the ultimate parent entity of the Suncorp Group prior to 7 January 2011.

(2) Other assets is mainly made up of accrued interest and prepayments.

(3) Goodwill and intangible balances for December 2010 are restated to present goodwill on a post allocation to CGU (cash generating unit) basis.

(4) The 31 December 2010 amounts reflect Core Equity Tier 1 Capital which is an equivalent measure to Core Equity Tier 1 under the NOHC restructure.

## Appendix 8 – Consolidated Bank (continued)

### Loans, advances and other receivables

| | CORE DEC-11 $M | NON-CORE DEC-11 $M | TOTAL DEC-11 $M | TOTAL JUN-11 $M | TOTAL DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|---|---|
| Housing loans | 27,200 | - | 27,200 | 27,014 | 25,954 | 0.7 | 4.8 |
| Securitised housing loans | 4,659 | - | 4,659 | 3,980 | 4,510 | 17.1 | 3.3 |
| Total housing loans | 31,859 | - | 31,859 | 30,994 | 30,464 | 2.8 | 4.6 |
| Consumer loans | 510 | - | 510 | 558 | 557 | (8.6) | (8.4) |
| Retail loans | 32,369 | - | 32,369 | 31,552 | 31,021 | 2.6 | 4.3 |
| | | | | | | | |
| Commercial (SME) | 4,829 | - | 4,829 | 4,555 | 4,370 | 6.0 | 10.5 |
| Corporate | - | 1,215 | 1,215 | 1,600 | 1,959 | (24.1) | (38.0) |
| Development finance | - | 1,848 | 1,848 | 2,132 | 2,981 | (13.3) | (38.0) |
| Property investment | - | 2,350 | 2,350 | 3,176 | 3,967 | (26.0) | (40.8) |
| Lease finance | - | 249 | 249 | 407 | 597 | (38.8) | (58.3) |
| Agribusiness | 3,576 | - | 3,576 | 3,504 | 3,358 | 2.1 | 6.5 |
| Business loans [1] | 8,405 | 5,662 | 14,067 | 15,374 | 17,232 | (8.5) | (18.4) |
| **Total lending** | **40,774** | **5,662** | **46,436** | **46,926** | **48,253** | **(1.0)** | **(3.8)** |
| | | | | | | | |
| Other receivables [2] | 120 | 1,776 | 1,896 | 2,332 | 2,758 | (18.7) | (31.3) |
| **Gross banking loans, advances and other receivables** | 40,894 | 7,438 | 48,332 | 49,258 | 51,011 | (1.9) | (5.3) |
| Provision for impairment | (120) | (433) | (553) | (564) | (602) | (2.0) | (8.1) |
| **Loans, advances and other receivables** | **40,774** | **7,005** | **47,779** | **48,694** | **50,409** | **(1.9)** | **(5.2)** |
| **Credit risk weighted assets** | **21,307** | **6,660** | **27,967** | **29,914** | **31,442** | **(6.5)** | **(11.1)** |
| | | | | | | | |
| **Geographical breakdown - Total lending** | | | | | | | |
| Queensland | 25,583 | 2,377 | 27,960 | 28,652 | 28,879 | (2.4) | (3.2) |
| New South Wales | 8,116 | 2,156 | 10,272 | 10,159 | 10,536 | 1.1 | (2.5) |
| Victoria | 3,617 | 817 | 4,434 | 4,653 | 5,171 | (4.7) | (14.3) |
| Western Australia | 2,348 | 247 | 2,595 | 2,451 | 2,543 | 5.9 | 2.0 |
| South Australia and other | 1,110 | 65 | 1,175 | 1,011 | 1,124 | 16.2 | 4.5 |
| | | | | | | | |
| Outside of Queensland loans | 15,191 | 3,285 | 18,476 | 18,274 | 19,374 | 1.1 | (4.6) |
| **Total lending** | **40,774** | **5,662** | **46,436** | **46,926** | **48,253** | **(1.0)** | **(3.8)** |

(1) From 31 December 2011, Business loans balances have been adjusted to reflect interest not brought to account, which was previously reported under “Other receivables”. This restatement has reduced Business loans balances by $452 million in June 2011 and $333 million in December 2010.

(2) Other receivables are primarily collateral deposits provided to derivative counterparties.

# Appendix 8 – Consolidated Bank (continued)

## Funding and deposits

| | CORE DEC-11 $M | NON-CORE DEC-11 $M | TOTAL DEC-11 $M | TOTAL JUN-11 $M | TOTAL DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|---|---|
| **Retail funding** | | | | | | | |
| *Retail deposits* | | | | | | | |
| Transaction | 5,814 | - | 5,814 | 5,492 | 5,517 | 5.9 | 5.4 |
| Investment | 4,032 | - | 4,032 | 3,706 | 3,651 | 8.8 | 10.4 |
| Term | 14,421 | - | 14,421 | 15,094 | 14,702 | (4.5) | (1.9) |
| Core retail deposits | 24,267 | - | 24,267 | 24,292 | 23,870 | (0.1) | 1.7 |
| Retail treasury deposits | 4,013 | - | 4,013 | 3,604 | 3,564 | 11.3 | 12.6 |
| Total retail funding | 28,280 | - | 28,280 | 27,896 | 27,434 | 1.4 | 3.1 |
| **Wholesale funding** | | | | | | | |
| *Domestic funding sources* | | | | | | | |
| Short-term wholesale | 6,980 | 2,140 | 9,120 | 7,511 | 7,065 | 21.4 | 29.1 |
| Long-term wholesale | 1,166 | 3,153 | 4,319 | 4,818 | 5,881 | (10.4) | (26.6) |
| Subordinated notes | 130 | 40 | 170 | 170 | 471 | - | (63.9) |
| Reset preference shares | 23 | 7 | 30 | 102 | 145 | (70.6) | (79.3) |
| Convertible preference shares | 558 | 172 | 730 | 728 | 726 | 0.3 | 0.6 |
| | 8,857 | 5,512 | 14,369 | 13,329 | 14,288 | 7.8 | 0.6 |
| *Overseas funding sources* [1] | | | | | | | |
| Short-term wholesale | 1,422 | 446 | 1,868 | 3,840 | 2,763 | (51.4) | (32.4) |
| Long-term wholesale | 1,185 | 3,202 | 4,387 | 5,333 | 7,161 | (17.7) | (38.7) |
| Subordinated notes | 382 | 118 | 500 | 676 | 689 | (26.0) | (27.4) |
| | 2,989 | 3,766 | 6,755 | 9,849 | 10,613 | (31.4) | (36.4) |
| Total wholesale funding | 11,846 | 9,278 | 21,124 | 23,178 | 24,901 | (8.9) | (15.2) |
| **Total funding (excluding securitisation)** | **40,126** | **9,278** | **49,404** | **51,074** | **52,335** | **(3.3)** | **(5.6)** |
| **Securitised funding** | | | | | | | |
| APS 120 qualifying [2] | 3,322 | - | 3,322 | 2,451 | 1,998 | 35.5 | 66.3 |
| APS 120 non-qualifying | 1,034 | - | 1,034 | 1,183 | 2,140 | (12.6) | (51.7) |
| Total securitised funding | 4,356 | - | 4,356 | 3,634 | 4,138 | 19.9 | 5.3 |
| **Total funding (including securitisation)** | **44,482** | **9,278** | **53,760** | **54,708** | **56,473** | **(1.7)** | **(4.8)** |
| **Total funding is represented on the balance sheet by:** | | | | | | | |
| Deposits | 28,280 | - | 28,280 | 27,896 | 27,434 | 1.4 | 3.1 |
| Short-term borrowings | 8,402 | 2,586 | 10,988 | 11,351 | 9,828 | (3.2) | 11.8 |
| Securitisation liabilities | 4,356 | - | 4,356 | 3,634 | 4,138 | 19.9 | 5.3 |
| Bonds, notes and long-term borrowings | 2,351 | 6,355 | 8,706 | 10,151 | 13,042 | (14.2) | (33.2) |
| Subordinated notes | 512 | 158 | 670 | 846 | 1,160 | (20.8) | (42.2) |
| Preference shares | 581 | 179 | 760 | 830 | 871 | (8.4) | (12.7) |
| **Total** | **44,482** | **9,278** | **53,760** | **54,708** | **56,473** | **(1.7)** | **(4.8)** |

(1) Foreign currency borrowings are hedged back into Australian dollars.
(2) Qualifies for capital relief under APS 120.

## Appendix 8 – Consolidated Bank (continued)

### Wholesale funding instruments maturity profile

| | CORE DEC-11 $M | NON-CORE DEC-11 $M | TOTAL DEC-11 $M | TOTAL JUN-11 $M | TOTAL DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|---|---|
| **Maturity** | | | | | | | |
| 0 to 3 months | 7,733 | 2,352 | 10,085 | 11,596 | 9,569 | (13.0) | 5.4 |
| 3 to 6 months | 1,172 | 1,558 | 2,730 | 1,688 | 4,610 | 61.7 | (40.8) |
| 6 to 12 months | 920 | 2,179 | 3,099 | 1,766 | 1,987 | 75.5 | 56.0 |
| 1 to 3 years | 4,443 | 2,970 | 7,413 | 10,205 | 10,932 | (27.4) | (32.2) |
| 3+ years | 1,934 | 219 | 2,153 | 1,557 | 1,941 | 38.3 | 10.9 |
| Total wholesale funding instruments | 16,202 | 9,278 | 25,480 | 26,812 | 29,039 | (5.0) | (12.3) |

### Net interest income

| | HALF YEAR ENDED | | | | | | |
|---|---|---|---|---|---|---|---|
| | CORE DEC-11 $M | NON-CORE DEC-11 $M | TOTAL DEC-11 $M | TOTAL JUN-11 $M | TOTAL DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
| Interest revenue lending assets | 1,454 | 269 | 1,723 | 1,783 | 1,823 | (3.4) | (5.5) |
| Interest revenue other assets | 176 | 172 | 348 | 358 | 391 | (2.8) | (11.0) |
| Interest expense deposits and funding [1] | (1,189) | (413) | (1,602) | (1,669) | (1,776) | (4.0) | (9.8) |
| **Net interest income** | **441** | **28** | **469** | **472** | **438** | **(0.6)** | 7.1 |
| **Net interest margin (interest earning assets)** | **1.91%** | **0.40%** | **1.56%** | **1.54%** | **1.35%** | | |
| **Net interest margin (lending assets)** | **2.20%** | **0.80%** | **1.99%** | **1.98%** | **1.77%** | | |

[1] Includes interest expense on preference shares; Dec-11 $22 million, Jun-11 $22 million and Dec-10 $24 million.

### Non-interest income

| | HALF YEAR ENDED | | | | | | |
|---|---|---|---|---|---|---|---|
| | CORE DEC-11 $M | NON-CORE DEC-11 $M | TOTAL DEC-11 $M | TOTAL JUN-11 $M | TOTAL DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
| Net banking fee income | 41 | 7 | 48 | 51 | 67 | (5.9) | (28.4) |
| Other non-interest income | 17 | 26 | 43 | 7 | 3 | large | large |
| | **58** | **33** | **91** | **58** | **70** | **56.9** | **30.0** |

# Appendix 8 – Consolidated Bank (continued)

## Operating expenses

| | HALF YEAR ENDED | | | DEC-11 | DEC-11 |
|---|---|---|---|---|---|
| | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | % | % |
| **Total operating expenses** | | | | | |
| Core operating expenses | (258) | (253) | (239) | 2.0 | 7.9 |
| Non-core operating expenses | (33) | (36) | (40) | (8.3) | (17.5) |
| | (291) | (289) | (279) | 0.7 | 4.3 |
| **Consisting of:** | | | | | |
| Staff expenses | (168) | (166) | (158) | 1.2 | 6.3 |
| Equipment and occupancy expenses | (53) | (51) | (54) | 3.9 | (1.9) |
| Hardware, software and dataline expenses | (18) | (16) | (15) | 12.5 | 20.0 |
| Advertising and promotion | (18) | (19) | (18) | (5.3) | - |
| Office supplies, postage and printing | (12) | (12) | (12) | - | - |
| Other [1] | (22) | (25) | (22) | (12.0) | - |
| | **(291)** | **(289)** | **(279)** | **0.7** | **4.3** |

(1) Other operating expenses are primarily made up of financial, legal, motor vehicle and travel and accommodation expenses.

## Impairment losses on loans and advances

| | HALF YEAR ENDED | | | | | | |
|---|---|---|---|---|---|---|---|
| | CORE | NON-CORE | TOTAL | TOTAL | TOTAL | DEC-11 | DEC-11 |
| | DEC-11 | DEC-11 | DEC-11 | JUN-11 | DEC-10 | vs JUN-11 | vs DEC-10 |
| | $M | $M | $M | $M | $M | % | % |
| Collective provision for impairment | (6) | (5) | (11) | (11) | (13) | - | (15.4) |
| Specific provision for impairment | 13 | 115 | 128 | 113 | 216 | 13.3 | (40.7) |
| Actual net write-offs | 2 | 12 | 14 | 10 | 10 | 40.0 | 40.0 |
| | **9** | **122** | **131** | **112** | **213** | **17.0** | **(38.5)** |
| **Impairment losses to credit risk weighted assets (annualised)** | **0.08%** | **3.63%** | **0.93%** | **0.76%** | **1.34%** | | |

## Appendix 8 – Consolidated Bank (continued)

### Impaired asset balances

| | CORE DEC-11 $M | NON-CORE DEC-11 $M | TOTAL DEC-11 $M | TOTAL JUN-11 $M | TOTAL DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|---|---|
| **Gross balances of individually impaired loans** | | | | | | | |
| with specific provisions set aside | 124 | 2,138 | 2,262 | 2,338 | 2,516 | (3.3) | (10.1) |
| without specific provisions set aside | 17 | 25 | 42 | 43 | - | (2.3) | n/a |
| Gross impaired assets | 141 | 2,163 | 2,304 | 2,381 | 2,516 | (3.2) | (8.4) |
| Specific provision for impairment | (45) | (342) | (387) | (387) | (414) | - | (6.5) |
| **Net impaired assets** | 96 | 1,821 | 1,917 | 1,994 | 2,102 | (3.9) | (8.8) |
| **Size of gross individually impaired assets** | | | | | | | |
| Less than one million | 21 | 10 | 31 | 30 | 28 | 3.3 | 10.7 |
| Greater than one million but less than ten million | 101 | 192 | 293 | 300 | 340 | (2.3) | (13.8) |
| Greater than ten million | 19 | 1,961 | 1,980 | 2,051 | 2,148 | (3.5) | (7.8) |
| | 141 | 2,163 | 2,304 | 2,381 | 2,516 | (3.2) | (8.4) |
| **Past due loans not shown as impaired assets** | 300 | 226 | 526 | 511 | 331 | 2.9 | 58.9 |
| **Gross non-performing loans** | 441 | 2,389 | 2,830 | 2,892 | 2,847 | (2.1) | (0.6) |
| **Analysis of movements in gross individually impaired assets** | | | | | | | |
| Balance at the beginning of the half year | 146 | 2,235 | 2,381 | 2,516 | 2,122 | (5.4) | 12.2 |
| Recognition of new impaired assets | 37 | 88 | 125 | 227 | 791 | (44.9) | (84.2) |
| Increases in previously recognised impaired assets | 1 | 19 | 20 | 33 | 17 | (39.4) | 17.6 |
| Impaired assets written off/sold during the period | (3) | (46) | (49) | (45) | (171) | 8.9 | (71.3) |
| Impaired assets which have been reclassed as performing assets or repaid | (40) | (133) | (173) | (350) | (243) | (50.6) | (28.8) |
| **Balance at the end of the half year** | **141** | **2,163** | **2,304** | **2,381** | **2,516** | **(3.2)** | **(8.4)** |

## Appendix 8 – Consolidated Bank (continued)

### Provision for impairment

| | CORE DEC-11 $M | NON-CORE DEC-11 $M | TOTAL DEC-11 $M | TOTAL JUN-11 $M | TOTAL DEC-10 $M | DEC-11 vs JUN-11 % | DEC-11 vs DEC-10 % |
|---|---|---|---|---|---|---|---|
| **Collective provision** | | | | | | | |
| Balance at the beginning of the period | 81 | 96 | 177 | 188 | 201 | (5.9) | (11.9) |
| Charge against contribution to profit | (6) | (5) | (11) | (11) | (13) | - | (15.4) |
| Balance at the end of the period | 75 | 91 | 166 | 177 | 188 | (6.2) | (11.7) |
| **Specific provision** | | | | | | | |
| Balance at the beginning of the period | 39 | 348 | 387 | 414 | 471 | (6.5) | (17.8) |
| Charge against impairment losses | 13 | 115 | 128 | 113 | 216 | 13.3 | (40.7) |
| Write-off of impaired assets | (3) | (47) | (50) | (56) | (196) | (10.7) | (74.5) |
| Unwind of interest | (4) | (74) | (78) | (84) | (77) | (7.1) | 1.3 |
| Balance at the end of the period | 45 | 342 | 387 | 387 | 414 | - | (6.5) |
| **Total provision for impairment - Banking activities** | 120 | 433 | 553 | 564 | 602 | (2.0) | (8.1) |
| **Equity reserve for credit loss** | | | | | | | |
| Balance at the beginning of the period | 74 | 83 | 157 | 162 | 226 | (3.1) | (30.5) |
| Transfer to retained earnings | 33 | (14) | 19 | (5) | (64) | n/a | n/a |
| Balance at the end of the period | 107 | 69 | 176 | 157 | 162 | 12.1 | 8.6 |
| Pre-tax equivalent coverage | 153 | 98 | 251 | 224 | 231 | 12.1 | 8.7 |
| **Total provision for impairment and equity reserve for credit loss - Banking activities** | 273 | 531 | 804 | 788 | 833 | 2.0 | (3.5) |

| | % | % | % | % | % |
|---|---|---|---|---|---|
| **Provision for impairment expressed as a percentage of gross impaired assets are as follows:** | | | | | |
| Collective provision | 53.2 | 4.2 | 7.2 | 7.4 | 7.5 |
| Specific provision | 31.9 | 15.8 | 16.8 | 16.3 | 16.5 |
| Total provision | 85.1 | 20.0 | 24.0 | 23.7 | 23.9 |
| Equity reserve for credit loss coverage | 108.5 | 4.5 | 10.9 | 9.4 | 9.2 |
| Total provision and equity reserve for credit loss coverage | 193.6 | 24.5 | 34.9 | 33.1 | 33.1 |

## Appendix 8 – Consolidated Bank (continued)

### Average banking balance sheet

| | HALF YEAR ENDED DEC-11 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | CORE PORTFOLIO | | | NON-CORE PORTFOLIO | | | TOTAL PORTFOLIO | | |
| | AVERAGE BALANCE | INTEREST | AVERAGE RATE | AVERAGE BALANCE | INTEREST | AVERAGE RATE | AVERAGE BALANCE | INTEREST | AVERAGE RATE |
| | $M | $M | % | $M | $M | % | $M | $M | % |
| **Assets** | | | | | | | | | |
| **Interest earning assets** | | | | | | | | | |
| Trading and investment securities | 5,979 | 176 | 5.84 | 7,067 | 173 | 4.86 | 13,046 | 349 | 5.31 |
| Gross loans, advances and other receivables | 39,763 | 1,454 | 7.25 | 6,929 | 268 | 7.67 | 46,692 | 1,722 | 7.32 |
| Other interest earning assets | - | - | - | - | - | - | - | - | - |
| Total interest earning assets | 45,742 | 1,630 | 7.07 | 13,996 | 441 | 6.25 | 59,738 | 2,071 | 6.88 |
| **Non-interest earning assets** | | | | | | | | | |
| Other assets (inc. loan provisions) | 763 | | | (933) | | | (170) | | |
| Total non-interest earning assets | 763 | | | (933) | | | (170) | | |
| **TOTAL ASSETS** | 46,505 | | | 13,063 | | | 59,568 | | |
| **Liabilities** | | | | | | | | | |
| **Interest bearing liabilities** | | | | | | | | | |
| Retail deposits | 27,740 | 717 | 5.13 | - | - | - | 27,740 | 717 | 5.13 |
| Wholesale liabilities | 14,693 | 441 | 5.95 | 11,652 | 402 | 6.84 | 26,345 | 843 | 6.35 |
| Debt capital | 1,074 | 31 | 5.73 | 382 | 11 | 5.71 | 1,456 | 42 | 5.72 |
| Total interest bearing liabilities | 43,507 | 1,189 | 5.42 | 12,034 | 413 | 6.81 | 55,541 | 1,602 | 5.72 |
| **Non-interest bearing liabilities** | | | | | | | | | |
| Other liabilities | 927 | | | - | | | 927 | | |
| Total non-interest bearing liabilities | 927 | | | - | | | 927 | | |
| **TOTAL LIABILITIES** | 44,434 | | | 12,034 | | | 56,468 | | |
| **AVERAGE SHAREHOLDERS' EQUITY** | 2,071 | | | 1,029 | | | 3,100 | | |
| Non-Shareholder Accounting Equity | 50 | | | - | | | 50 | | |
| Average Shareholder Equity | 2,121 | | | 1,029 | | | 3,150 | | |
| SGL Goodwill allocated to Banking Business | (235) | | | - | | | (235) | | |
| **Average Shareholder Equity (ex Goodwill)** | 1,886 | | | 1,029 | | | 2,915 | | |
| **Analysis of interest margin and spread** | | | | | | | | | |
| Interest earning assets | 45,742 | 1,630 | 7.07 | 13,996 | 441 | 6.25 | 59,738 | 2,071 | 6.88 |
| Interest bearing liabilities | 43,507 | 1,189 | 5.42 | 12,034 | 413 | 6.81 | 55,541 | 1,602 | 5.72 |
| **Net interest spread** | | | 1.65 | | | (0.56) | | | 1.16 |
| **Net interest margin (interest earning assets)** | 45,742 | 441 | 1.91 | 13,996 | 28 | 0.40 | 59,738 | 469 | 1.56 |
| **Net interest margin (lending assets)** | 39,763 | 441 | 2.20 | 6,929 | 28 | 0.80 | 46,692 | 469 | 1.99 |

## Appendix 8 – Consolidated Bank (continued)

### Average banking balance sheet (continued)

| | HALF YEAR ENDED JUN-11 TOTAL PORTFOLIO | | | HALF YEAR ENDED DEC-10 TOTAL PORTFOLIO | | |
|---|---|---|---|---|---|---|
| | AVERAGE BALANCE $M | INTEREST $M | AVERAGE RATE % | AVERAGE BALANCE $M | INTEREST $M | AVERAGE RATE % |
| **Assets** | | | | | | |
| **Interest earning assets** | | | | | | |
| Trading and investment securities | 13,457 | 358 | 5.36 | 14,891 | 392 | 5.22 |
| Gross loans, advances and other receivables | 48,156 | 1,779 | 7.45 | 49,084 | 1,811 | 7.32 |
| Other interest earning assets | 161 | 4 | 5.01 | 395 | 11 | 5.52 |
| Total interest earning assets | 61,774 | 2,141 | 6.99 | 64,370 | 2,214 | 6.82 |
| **Non-interest earning assets** | | | | | | |
| Other assets (inc. loan provisions) | (321) | | | (376) | | |
| Total non-interest earning assets | (321) | | | (376) | | |
| **TOTAL ASSETS** | 61,453 | | | 63,994 | | |
| **Liabilities** | | | | | | |
| **Interest bearing liabilities** | | | | | | |
| Retail deposits | 27,237 | 711 | 5.26 | 27,004 | 706 | 5.19 |
| Wholesale liabilities | 28,463 | 911 | 6.45 | 31,219 | 1,021 | 6.49 |
| Debt capital [(1)] | 1,670 | 47 | 5.68 | 1,738 | 49 | 5.59 |
| Total interest bearing liabilities | 57,370 | 1,669 | 5.87 | 59,961 | 1,776 | 5.88 |
| **Non-interest bearing liabilities** | | | | | | |
| Other liabilities | 960 | | | 974 | | |
| Total non-interest bearing liabilities | 960 | | | 974 | | |
| **TOTAL LIABILITIES** | 58,330 | | | 60,935 | | |
| **AVERAGE SHAREHOLDERS' EQUITY** | 3,123 | | | 3,059 | | |
| Non-Shareholder Accounting Equity | 53 | | | 196 | | |
| Average Shareholder Equity | 3,176 | | | 3,255 | | |
| SGL Goodwill allocated to Banking Business | (235) | | | - | | |
| Average Shareholder Equity (ex Goodwill) | 2,941 | | | 3,255 | | |
| **Analysis of interest margin and spread** | | | | | | |
| Interest earning assets | 61,774 | 2,141 | 6.99 | 64,370 | 2,214 | 6.82 |
| Interest bearing liabilities | 57,370 | 1,669 | 5.87 | 59,961 | 1,776 | 5.88 |
| **Net interest spread** | | | 1.12 | | | 0.94 |
| **Net interest margin (interest earning assets)** | 61,774 | 472 | 1.54 | 64,370 | 438 | 1.35 |
| **Net interest margin (lending assets)** | 48,156 | 472 | 1.98 | 49,084 | 438 | 1.77 |

(1) For the December 2010 half, this excludes the subordinated notes and preference shares notionally allocated to General Insurance as share of capital funding and the associated interest cost charged to General Insurance.

## Appendix 8 – Consolidated Bank (continued)

## APS330 Disclosure

### Table 15
### Capital Structure

| | DEC-11 $M | JUN-11 $M |
|---|---|---|
| **Tier 1** | | |
| Ordinary share capital | 2,189 | 1,789 |
| Retained profits | 533 | 902 |
| Preference shares | 765 | 823 |
| Less goodwill, brands | (30) | (29) |
| Less software assets | (1) | - |
| Less other intangible assets | (51) | (47) |
| Less deferred tax asset | (142) | (129) |
| Less other required deductions | (8) | - |
| Less Tier 1 deductions for investments in subsidiaries, capital support | (18) | (18) |
| **Total Tier 1 capital** | **3,237** | **3,291** |
| **Tier 2** | | |
| APRA general reserves for credit losses | 251 | 248 |
| Asset Revaluation Reserve | - | 17 |
| Subordinated notes | 822 | 1,053 |
| Excess residual Tier 1 | - | 15 |
| Less Tier 2 deductions for investments in subsidiaries, capital support | (18) | (18) |
| **Total Tier 2 capital** | **1,055** | **1,315** |
| **Total capital base** | **4,292** | **4,606** |

### Table 16
### On balance sheet risk weighted assets

| | RISK WEIGHTED BALANCE | | |
|---|---|---|---|
| | DEC-11 $M | SEP-11 $M | JUN-11 $M |
| **On Balance Sheet Risk weighted assets** | | | |
| **Assets** | | | |
| Cash items | 15 | 51 | 20 |
| Claims on Australian and foreign governments | 2 | 2 | 5 |
| Claims on central banks, international banking agencies, regional development banks, ADIs and overseas banks | 1,085 | 1,347 | 1,268 |
| Claims on securitisation exposures | 332 | 346 | 352 |
| Claims secured against eligible residential mortgages | 12,126 | 12,238 | 12,087 |
| Past due claims | 3,433 | 3,544 | 3,409 |
| Other retail assets | 912 | 1,110 | 1,156 |
| Corporate | 9,985 | 10,281 | 11,450 |
| Other assets and claims | 77 | 209 | 167 |
| **Total Banking assets** [1] | **27,967** | **29,128** | **29,914** |

(1) Total Banking assets differ from Banking segments assets due to the adoption of the APRA classification of intangible assets, deferred taxation, incorporation of the trading book in the market risk capital charge and general reserve for credit losses for capital adequacy purposes.

## Appendix 8 – Consolidated Bank (continued)

## APS330 Disclosure

### Table 16
### Off balance sheet risk weighted assets

| | RISK WEIGHTED BALANCE | | |
|---|---|---|---|
| | DEC-11 | SEP-11 | JUN-11 |
| | $M | $M | $M |
| **Off balance sheet positions** | | | |
| Guarantees entered into in the normal course of business | 156 | 171 | 144 |
| Commitments to provide loans and advances | 944 | 807 | 699 |
| Capital commitments | - | - | - |
| Foreign exchange contracts | 88 | 121 | 112 |
| Interest rate contracts | 151 | 139 | 91 |
| Securitisation exposures | 30 | 33 | 33 |
| Total off balance sheet positions | **1,369** | **1,271** | **1,079** |
| | | | |
| **Total credit risk capital charge** | 29,336 | 30,399 | 30,993 |
| **Market risk capital charge** | 387 | 415 | 363 |
| **Operational risk capital charge** | 3,059 | 3,030 | 3,010 |
| **Total assessed risk** | 32,782 | 33,844 | 34,366 |
| | | | |
| **Risk weighted capital ratios** | % | % | % |
| Tier 1 | 9.87 | 9.39 | 9.58 |
| **Total risk weighted capital ratios** | **13.09** | **13.16** | **13.40** |
| | **$M** | **$M** | **$M** |
| **Core Equity Tier 1 Capital** | **2,453** | **2,396** | **2,450** |
| | **%** | **%** | **%** |
| **Core Equity Tier 1 ratio** | **7.48** | **7.08** | **7.13** |

## Appendix 8 – Consolidated Bank (continued)

## APS330 Disclosure

### Table 17A
### Credit risk by gross credit exposure – outstanding as at 31 December 2011

| | RECEIVABLES DUE FROM OTHER BANKS | TRADING SECURITIES | INVESTMENT SECURITIES | LOANS, ADVANCES AND OTHER RECEIVABLES | CREDIT COMMITMENTS | DERIVATIVE INSTRUMENTS | TOTAL CREDIT RISK | IMPAIRED ASSETS | PAST DUE NOT IMPAIRED > 90 DAYS | TOTAL NOT PAST DUE OR IMPAIRED | SPECIFIC PROVISIONS |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $M | $M | $M | $M | $M | $M | $M | $M | $M | $M | $M |
| Agribusiness | - | - | - | 3,404 | 152 | - | 3,556 | 200 | 23 | 3,333 | 40 |
| Construction & development | - | - | - | 2,865 | 84 | - | 2,949 | 1,416 | 174 | 1,359 | 278 |
| Financial services | 169 | 3,641 | 5,003 | 2,466 | 13 | 480 | 11,772 | - | - | 11,772 | - |
| Hospitality | - | - | - | 1,110 | 37 | - | 1,147 | 57 | 6 | 1,084 | 1 |
| Manufacturing | - | - | - | 490 | 26 | - | 516 | 8 | 7 | 501 | 6 |
| Professional services | - | - | - | 324 | 14 | - | 338 | 4 | 1 | 333 | 1 |
| Property investment | - | - | - | 3,390 | 94 | - | 3,484 | 511 | 55 | 2,918 | 53 |
| Real estate - Mortgage | - | - | - | 29,256 | 1,134 | - | 30,390 | 24 | 228 | 30,138 | 5 |
| Personal | - | - | - | 407 | 6 | - | 413 | - | 4 | 409 | - |
| Government/public authorities | - | - | - | 3 | - | - | 3 | - | - | 3 | - |
| Other commercial & industrial | - | - | - | 1,999 | 106 | - | 2,105 | 84 | 28 | 1,993 | 3 |
| **Total gross credit risk** | **169** | **3,641** | **5,003** | **45,714** | **1,666** | **480** | **56,673** | **2,304** | **526** | **53,843** | **387** |
| Eligible securitised loans | - | - | 1,664 | 2,771 | 24 | 11 | 4,470 | **-** | **-** | 4,470 | **-** |
| **Total including eligible securitised loans** | **169** | **3,641** | **6,667** | **48,485** | **1,690** | **491** | **61,143** | **2,304** | **526** | **58,313** | **387** |
| Impairment provision | | | | | | | (553) | (387) | (59) | (107) | - |
| **TOTAL** | | | | | | | **60,590** | **1,917** | **467** | **58,206** | **387** |

## Appendix 8 – Consolidated Bank (continued)

## APS330 Disclosure

### Table 17A
### Credit risk by gross credit exposure – average gross exposure over period 1 October to 31 December 2011

| | RECEIVABLES DUE FROM OTHER BANKS | TRADING SECURITIES | INVESTMENT SECURITIES | LOANS, ADVANCES AND OTHER RECEIVABLES | CREDIT COMMITMENTS | DERIVATIVE INSTRUMENTS | TOTAL CREDIT RISK | IMPAIRED ASSETS | PAST DUE NOT IMPAIRED > 90 DAYS | TOTAL NOT PAST DUE OR IMPAIRED | SPECIFIC PROVISIONS |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $M | $M | $M | $M | $M | $M | $M | $M | $M | $M | $M |
| Agribusiness | - | - | - | 3,373 | 152 | - | 3,525 | 202 | 23 | 3,300 | 43 |
| Construction & development | - | - | - | 2,914 | 97 | - | 3,011 | 1,424 | 197 | 1,390 | 262 |
| Financial services | 215 | 4,083 | 5,263 | 2,459 | 12 | 561 | 12,593 | - | - | 12,593 | - |
| Hospitality | - | - | - | 1,129 | 38 | - | 1,167 | 53 | 8 | 1,106 | 1 |
| Manufacturing | - | - | - | 506 | 25 | - | 531 | 12 | 4 | 515 | 6 |
| Professional services | - | - | - | 333 | 13 | - | 346 | 4 | 2 | 340 | 1 |
| Property investment | - | - | - | 3,438 | 88 | - | 3,526 | 514 | 62 | 2,950 | 57 |
| Real estate - Mortgage | - | - | - | 29,434 | 993 | - | 30,427 | 24 | 227 | 30,176 | 6 |
| Personal | - | - | - | 376 | 9 | - | 385 | - | 4 | 381 | - |
| Government/public authorities | - | - | - | 3 | - | - | 3 | - | - | 3 | - |
| Other commercial & industrial | - | - | - | 2,078 | 117 | - | 2,195 | 87 | 27 | 2,081 | 5 |
| **Total gross credit risk** | **215** | **4,083** | **5,263** | **46,043** | **1,544** | **561** | **57,709** | **2,320** | **554** | **54,835** | **381** |
| Eligible securitised loans | - | - | 1,696 | 2,217 | 26 | 9 | 3,948 | **-** | - | 3,948 | **-** |
| **Total including eligible securitised loans** | **215** | **4,083** | **6,959** | **48,260** | **1,570** | **570** | **61,657** | **2,320** | **554** | **58,783** | **381** |
| Impairment provision | | | | | | | (548) | (379) | (65) | (104) | - |
| **TOTAL** | | | | | | | **61,109** | **1,941** | **489** | **58,679** | **381** |

## Appendix 8 – Consolidated Bank (continued)

## APS330 Disclosure

### Table 17B
### Credit risk by portfolio

| | GROSS CREDIT RISK EXPOSURE | AVERAGE GROSS EXPOSURE | IMPAIRED ASSETS | PAST DUE NOT IMPAIRED > 90 DAYS | SPECIFIC PROVISIONS | CHARGES FOR SPECIFIC PROVISIONS & WRITE OFFS |
|---|---|---|---|---|---|---|
| | $M | $M | $M | $M | $M | $M |
| Claims secured against eligible residential mortgages | 30,390 | 30,427 | 24 | 228 | 5 | 1 |
| Other retail | 413 | 385 | - | 4 | - | 3 |
| Financial services | 11,772 | 12,593 | - | - | - | - |
| Government and public authorities | 3 | 3 | - | - | - | - |
| Corporate and other claims | 14,095 | 14,301 | 2,280 | 294 | 382 | 78 |
| **Total** | **56,673** | **57,709** | **2,304** | **526** | **387** | **82** |

| | $M |
|---|---|
| Collective provision for impairment | 166 |
| Ineligible Collective Provisions on Past Due not Impaired | (59) |
| **Eligible Collective Provisions** | **107** |
| FITB relating to eligible collective provision | (32) |
| Equity Reserve for credit losses | 176 |
| **General Reserve for Credit losses** | **251** |

# Appendix 9 – Definitions

| | |
|---|---|
| **ADI** | Authorised Deposit-taking Institutions |
| **Acquisition expense ratio** | Acquisition expenses divided by net earned premium |
| **Annuities market adjustments** | The value of annuity obligations are determined by discounting future obligations into today's dollars using risk-free rates. The value of such obligations fluctuates as market referenced discount rates change. The value of assets backing annuity obligations also fluctuates with investment markets. The net impact of both of these market-driven valuation changes are removed from Suncorp Life's Underlying Profit and recorded as annuity market adjustments |
| **Basis points (BPS)** | A 'basis point' is 1/100th of a percentage point |
| **Cash earnings** | Net profit after tax adjusted for the amortisation of acquisition intangible assets and the profit/(loss) on divestments |
| **Cash earnings per share** | Basic: cash earnings divided by the weighted average number of ordinary shares (net of treasury shares) outstanding during the period<br>Diluted: cash earnings adjusted for consequential changes in income or expenses associated with the dilutive potential ordinary shares divided by the weighted average number of diluted shares (net of treasury shares) outstanding during the period |
| **Cash return on average shareholders' equity** | Net profit after tax before amortisation of acquisition of intangibles (net of tax) and profit/(loss) on divestments divided by average shareholders' equity |
| **Capital adequacy ratio** | Capital base divided by total assessed risk, as defined by APRA |
| **Combined operating ratio** | The percentage of net earned premium that is used to meet the costs of all claims incurred plus pay the costs of acquiring (including commission), writing and servicing the General Insurance business |
| **Core equity tier 1** | Core equity tier 1 includes ordinary shareholder equity and retained profits less tier 1 and tier 2 regulatory deductions |
| **Core equity tier 1 ratio** | Core equity tier 1 divided by total assessed risk |
| **Cost to income ratio** | Operating expenses of the Banking business divided by total income from Banking activities |
| **Deferred acquisition costs (DAC)** | The portion of acquisition costs not yet expensed on the basis that it can be reliably measured and it is probable that it will give rise to premium revenue that will be brought to account in subsequent financial periods |
| **Deposit to loan ratio** | Total retail lending divided by total loans and advances, excluding other receivables |
| **Diluted shares** | Diluted shares is based on the weighted average number of ordinary shares outstanding during the period adjusted for potential ordinary shares that are dilutive in accordance with AASB 133 Earnings per Share |

## Appendix 9 – Definitions (continued)

| | |
|---|---|
| **Earnings per share** | Basic: profit after tax divided by the weighted average number of ordinary shares (net of treasury shares) outstanding during the period.<br>Diluted: profit after tax adjusted for consequential changes in income or expense associated with the dilutive potential ordinary shares divided by the weighted average number of diluted shares (net of treasury shares) outstanding during the period |
| **Effective tax rate** | Income tax expense divided by profit before tax |
| **Embedded Value** | Embedded value is equivalent to the sum of the adjusted net worth and the net present value of all future cashflows distributable to the shareholder that are expected to arise from in-force business, together with the value of franking credits |
| **Equity reserve for credit losses** | The equity reserve for credit losses represents the difference between the collective provisions for impairment and the estimate of credit losses across the credit cycle based on guidance provided by APRA |
| **Fire service levies (FSL)** | The expense relating to the amount levied on policyholders by insurance companies as part of premiums payable on policies with a fire risk component, which is established to cover the corresponding fire brigade charge which the Group will eventually have to pay |
| **Funds under administration (FUA)** | Funds where the Australian superannuation and investments business receives a fee for the administration of an asset portfolio |
| **General Insurance – Commercial** | Commercial products consist of commercial motor insurance, commercial property insurance, marine insurance, industrial special risk insurance, public liability and professional indemnity insurance, workers' compensation insurance and compulsory third party insurance |
| **General Insurance – Personal** | Personal products consist of home and contents insurance, motor insurance, boat insurance, and travel insurance |
| **Gross non-performing loans** | Gross impaired assets plus past due loans |
| **Impairment losses to gross loans and advances** | Impairment losses on loans and advances divided by gross banking loans, advances and other receivables |
| **Impairment losses to risk weighted assets** | Impairment losses on loans and advances divided by risk weighted assets |
| **Insurance Trading Ratio** | The insurance trading result expressed as a percentage of net earned premium |
| **Insurance Trading Result** | Underwriting result plus investment income on assets backing technical reserves |
| **Life insurance policyholders' interests** | Amounts due to an entity or person who owns a life insurance policy. This need not be the insured. This is distinct from shareholders' interests |
| **Life risk in-force annual premiums** | Total annualised statistical premium for all business in-force at the disclosure date (including new business written during the period) |
| **Life risk new business annual premiums** | Total annualised statistical premium for policies issued during the reporting period |

## Appendix 9 – Definitions (continued)

| | |
|---|---|
| **Life underlying profit** | Underlying profit refers to total profit less market adjustments. Market adjustments represents the impact of movements in discount rates on the value of policy liabilities, investment income experience on invested shareholder assets and annuities mismatches |
| **Loss ratio** | Net claims incurred expressed as a percentage of net earned premium. Net claims incurred consist of claims paid during the period increased (or decreased) by the increase (decrease) in outstanding claims liabilities |
| **Net interest margin** | Net interest income divided by average interest earning assets or lending assets, as specified |
| **Net interest spread** | The difference between the average interest rate on average interest earning assets and the average interest rate on average interest bearing liabilities |
| **Net tangible asset backing per share** | Total equity less intangible assets divided by ordinary shares at the end of the period adjusted for treasury shares |
| **Net profit after tax** | Net profit after tax attributable to owners of the Company derived in accordance with Australian Accounting Standards |
| **Operating expense ratio** | The percentage of the net premium that is used to meet the costs of acquiring (including commission), writing and servicing the General Insurance business |
| **Other underwriting expenses ratio** | Other underwriting expenses divided by net earned premium |
| **Past due** | Loans outstanding for more than 90 days |
| **Payout ratio – cash earnings** | Ordinary shares (net of treasury shares) at the end of the period multiplied by ordinary dividend per share for the period divided by cash earnings |
| **Payout ratio – net profit after tax** | Ordinary shares (net of treasury shares) at the end of the period multiplied by the ordinary dividend per share for the period divided by profit after tax |
| **Profit after tax from business lines** | The net profit after tax for the General Insurance, Bank and Life business lines |
| **Return on average total assets** | Net profit after tax divided by average total assets. Averages are based on beginning and end of period balances. The ratio is annualised for half years |
| **Return on average shareholders' equity** | Net profit after tax divided by adjusted average ordinary shareholders' equity. Averages are based on beginning and end of period balances. The ratio is annualised for half years |
| **Risk weighted assets** | Total of the carrying value of each asset class multiplied by their assigned risk weighting, as defined by APRA |
| **Total assessed risk** | Risk weighted assets, off balance sheet positions and market risk capital charge and operational risk charge, as defined by APRA |
| **Total operating expense ratio** | Total operating expenses that includes acquisition and other underwriting expenses expressed as a percentage of net earned premium |
| **Treasury shares** | Ordinary shares of the Company that are acquired by subsidiaries |

# Appendix 10 – 2012 Key Dates[1]

## Ordinary shares (SUN)

| | |
|---|---|
| **Half year results and announcement** | **22 February 2012** |
| Ex dividend date | 27 February 2012 |
| Record date | 2 March 2012 |
| Dividend payment | 2 April 2012 |
| | |
| **Group Investor Day** | **29 May 2012** |
| | |
| **Full year results and final dividend announcement** | **22 August 2012** |
| Ex dividend date | 27 August 2012 |
| Record date | 31 August 2012 |
| Dividend payment | 1 October 2012 |
| | |
| **Annual General Meeting** | **25 October 2012** |

## Floating Rate Capital Notes (SBKHB)

| | |
|---|---|
| Ex interest date | 9 February 2012 |
| Record date | 15 February 2012 |
| Interest payment | 1 March 2012 |
| | |
| Ex interest date | 9 May 2012 |
| Record date | 15 May 2012 |
| Interest payment | 30 May 2012 |
| | |
| Ex interest date | 9 August 2012 |
| Record date | 15 August 2012 |
| Interest payment | 30 August 2012 |
| | |
| Ex interest date | 9 November 2012 |
| Record date | 15 November 2012 |
| Interest payment | 30 November 2012 |

## Reset Preference Shares (SBKPA)

| | |
|---|---|
| Ex dividend date | 27 February 2012 |
| Record date | 2 March 2012 |
| Dividend payment | 14 March 2012 |
| | |
| Ex dividend date | 27 August 2012 |
| Record date | 31 August 2012 |
| Dividend payment | 14 September 2012 |

## Convertible Preference Shares (SBKPB)

| | |
|---|---|
| Ex dividend date | 27 February 2012 |
| Record date | 2 March 2012 |
| Dividend payment | 14 March 2012 |
| | |
| Ex dividend date | 29 May 2012 |
| Record date | 4 June 2012 |
| Dividend payment | 14 June 2012 |
| | |
| Ex dividend date | 27 August 2012 |
| Record date | 31 August 2012 |
| Dividend payment | 14 September 2012 |
| | |
| Ex dividend date | 28 November 2012 |
| Record date | 4 December 2012 |
| Dividend payment | 14 December 2012 |

(1) All dates are subject to change. Dividend dates will be confirmed upon their declaration.