ASX Announcement

One Company Many Brands

SUNCORP GROUP

22 August 2012

Suncorp Group Limited

Consolidated Financial Report and Appendix 4E

Attached for immediate release is the Suncorp Group Ltd **Appendix 4E** – Preliminary final report incorporating the Consolidated Financial Report for period ended 30 June 2012.

The following associated documents will be provided separately for lodgement:

- Media Release
- Chairman's Letter
- Announcement of Consolidated Financial Results - 30 June 2012

Darren Solomon

D C Solomon
Company Secretary

Appendix 4E

Preliminary final report
For the year ended 30 June 2012

The following sets out the requirements of Appendix 4E with the stipulated information either provided here or cross-referenced to the 2012 Consolidated Financial Report and Directors' Report, which are attached.

1. Company details

Suncorp Group Limited and its subsidiaries (the Suncorp Group)
ABN 66 145 290 124
Reporting period: 30 June 2012
Previous corresponding reporting period: 30 June 2011

2. Results for announcement to the market

In the financial year ended 30 June 2012, the Suncorp Group has delivered:

- improved shareholder returns
- revenue growth in targeted markets across all business lines
- reduced operating expenses at a time of significant investment in the business; and
- improved or stable margins.

This outcome has been achieved against a backdrop of a subdued domestic economy, volatile investment markets and another year of adverse weather experience.

In the financial year ended 30 June 2012, natural hazard costs have been $278 million above the Suncorp Group's expectation, Australian Government bond rates have reached near record lows, credit spreads have widened, equity markets have declined and property values have continued to fall. The Suncorp Group's strength in managing through this period has been demonstrated by the consolidated net profit after tax of $728 million, an increase of 60% on the prior financial year of $457 million.

The **General Insurance** net profit after tax was $493 million. The result was achieved despite the sequence of natural hazard events. The Christmas Day hailstorm in Melbourne, widespread flooding across Queensland and Northern New South Wales and higher than expected attritional events resulted in natural hazard claims being $278 million above allowances. Claims expenses have been reduced by the impact of Building Block initiatives on average repair costs and net releases of $166 million, which recognise favourable claims experience and initiatives designed to improve the management of long-tail claims.

Banking net profit after tax was $26 million. The run-off of the non-core portfolio progressed ahead of expectations, with total lending reducing by $2,842 million. Impairment losses on banking loans and advances increased by $80 million to $405 million for the financial year.

Life net profit after tax was $251 million. Substantial progress has been achieved against the strategy to grow intermediated and direct distribution channels.

Comparison to previous corresponding period	**Increase/ Decrease**	**%**	**To $m**
Revenue from ordinary activities	Decrease	15.76	16,034
Net profit from ordinary activities after tax attributable to owners of the Company	Increase	59.82	724
Net profit for the period attributable to owners of the Company	Increase	59.82	724

2. Results for announcement to the market (continued)

The Suncorp Group's improved balance sheet and surplus capital position has enabled the Board to declare a final dividend of 20 cents per share and a special dividend of 15 cents per share. Both dividends will be fully franked. Dividend payments for the full year total 55 cents per share, up from 35 cents per share in the prior financial year.

	Amount per share	Franked amount per share
2012 Interim ordinary dividend – paid	20 cents	20 cents
2012 Final ordinary dividend – payable	20 cents	20 cents
2012 Special dividend – payable	15 cents	15 cents

Record date for determining entitlements to the 2012 Final ordinary dividend and 2012 Special dividend are as follows:-

Ordinary shares (SUN) 31 August 2012

There is no attributed foreign conduit income.

3. Statement of comprehensive income with notes to the statement

Refer 2012 Consolidated Financial Report attached
Consolidated statement of comprehensive income
Notes to the consolidated financial statements as shown

4. Statement of financial position with notes to the statement

Refer 2012 Consolidated Financial Report attached
Consolidated Statement of financial position
Notes to the consolidated financial statements as shown

5. Statement of cash flows with notes to the statement

Refer 2012 Consolidated Financial Report attached
Consolidated statement of cash flows
Note 24 to the consolidated financial statements

6. Statement of changes in equity with notes to the statement

Refer 2012 Consolidated Financial Report attached
Consolidated statement of changes in equity
Notes to the consolidated financial statements as shown

7. Dividends

Refer 2012 Consolidated Financial Report attached
Note 4 to the consolidated financial statements

8. Dividend reinvestment plan

Ordinary shareholders will be able to participate in the Company's Dividend Reinvestment Plan in respect of the final dividend. The last date for receipt of an election notice is 31 August 2012.

9. Net tangible assets per security

	June 2012	June 2011
Net tangible assets per security ($)	6.15	6.03

10. Entities over which control has been gained or lost during the period

On 31 December 2011, the Suncorp Group acquired AMP GID Pty Ltd. The contribution of this entity to the Suncorp Group's profit for the financial year was not material.

11. Details of associates and joint ventures

Details of associates and joint venture entities are as follows:

Associate / Joint Venture	June 2012		June 2011	
	Holdings %	Profit Contribution $	Holdings %	Profit Contribution $
RACT Insurance Pty Ltd	50.0	Not material	50.0	Not material
NTI Limited	50.0	Not material	50.0	Not material
Capital Managers Pty Ltd	22.0	Not material	22.0	Not material
AA Warranty Ltd	50.0	Not material	50.0	Not material
AA Life Services Ltd	50.0	Not material	50.0	Not material

The profit contribution from any one of these joint ventures or associates is not material to the Suncorp Group's profit for the period or the previous corresponding period.

12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position

All significant information has been included elsewhere in this document or in the 2012 Consolidated Financial Report attached.

13. For foreign entities, which set of accounting standards is used in compiling the report

Not applicable.

14. Commentary on the results

The Suncorp Group recorded a net profit after tax and non-controlling interests for the year ended 30 June 2012 of $724 million, compared to $453 million in the prior financial year. The divisional operating profit before income tax is as follows:

	2012 $m	2011 $m	Reference to financial report
General Insurance	670	563	Note 6.1
Banking	39	145	Note 7.1
Life	323	223	Note 8.1
Corporate / other	(69)	(229)	
	963	702	
Income tax	(235)	(245)	
Profit for the period	728	457	
Attributable to:			
Owners of the Company	724	453	
Non-controlling interests	4	4	
	728	457	

Corporate / other net loss before tax of $69 million mainly relates to investment income on capital held at Group level of $37 million, gain on sale of property, plant and equipment of $29 million, and amortisation of acquisition intangible assets of $127 million.

General Insurance

General Insurance profit after tax was $493 million (2011: $392 million).

The Insurance Trading Result (ITR) was $511 million (2011: $412 million), representing an ITR ratio of 7.5% (2011: 6.6%). The increase in ITR has been driven by strong premium growth, delivery of the Building Blocks program of work and a tight focus on expense management.

Gross Written Premium (GWP) increased 9.3% to $7,955 million. Personal lines experienced growth across both Home (up 17.6%) and Motor (up 3.2%), with net written units and average premiums increasing across both lines. Commercial lines also experienced strong growth, with Commercial Insurance GWP increasing by 11.7%, with growth across the whole portfolio, most notably through rate increases in property classes. Compulsory Third Party GWP increased 4.3%, with increases in NSW average written premium and net written units contributing to the improvement.

Net incurred claims were $5,396 million. Short-tail claims were impacted by a number of major weather events, resulting in net natural hazard claims being $278 million above the Suncorp Group's allowance. Net reserve releases of $166 million were $64 million higher than the long-run expectation due to favourable claims experience in long-tail classes.

Total underwriting expenses of $1,664 million have remained stable. Investment income on insurance funds increased to $718 million due to mark to market gains as a result of falling discount rates. Investment income on shareholder funds was stable at $222 million. In preparation for upcoming LAGIC changes, the Suncorp Group diversified the shareholder funds portfolio by introducing exposure to equities and international fixed interest credit during the second half of the year.

14. Commentary on results (continued)

Banking

Banking profit after tax was $26 million (2011: $84 million).

The Bank continues to maintain separate core and non-core lending portfolios. The Bank's core lending portfolio is focused on relationship-based lending and deposit gathering in personal, small to medium enterprises and agribusiness banking. The focus of the non-core lending portfolio remains on responsible run-off of the portfolio to maximise the value of distributable capital that can be returned to the Suncorp Group. In 2012 the non-core portfolio continued to exceed run-off targets and now represents less than 10% of the Bank's total loan portfolio.

Total banking loans, advances and other receivables increased to $49,210 million. Growth in housing loan receivables recovered from a slow first quarter to finish the financial year at $33,955 million, an increase of 9.6%. This growth is within the Suncorp Group's risk appetite and reflects efforts to build the pipeline through an expanded footprint, improved processes, service delivery and a simplified product proposition. Business lending decreased by 12.9% to $13,392 million, with the run-off of the non-core portfolio partially offset by an increase in the core business portfolio.

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

The Bank's funding capability was significantly enhanced during the financial year by the successful establishment of a covered bond program, which will enable the Bank to issue both domestically and in offshore markets. The inaugural issue of $1,600 million was under taken in May 2012 with significant investor support. This was a first for a non-major Australian bank, highlighting the Bank's funding accessibility.

Net interest income increased 2.0%, in line with growth in average lending assets. On-going competition for term deposits continued to put downward pressure on retail funding margins.

Operating expenses increased 5.1%, supporting higher sales volumes, expansion of the Bank's footprint, investment in the Bank's technology platform and the commencement of the Basel II advanced accreditation program. The first phase of the Bank's core system replacement program is now complete, following the successful implementation of the Customer Relationship Management, Broker Commission and Trade Finance systems.

Impairment losses for the financial year were up 24.6% at $405 million. The higher impairment loss charge reflected sector weakness in regional and suburban retail shopping centres and for long-term land development projects. The Bank actively provisioned and wrote down underperforming exposures in these segments where recovery was deemed highly unlikely. Total provision for impairment at 30 June 2012 was $537 million, representing a decrease of 4.8% on the prior financial year.

Life

Life profit after tax was $251 million (2011: $149 million), benefiting from the favourable impact of falling yields on policy liabilities.

The Life Risk business was impacted by adverse experience particularly in disability claims and lapses. Life Risk new business sales were $111 million, was up 6.7%, with growth in both the Independent Financial Advisor Australia and direct channels. Superannuation new business sales were $326 million, down 12.6% in a subdued market. Funds Under Administration of $7,111 million, was down 7.6%, due to investment market volatility driving weak consumer confidence. Operating expenses have remained stable with simplification benefits offsetting increased investment in the IFA and direct channels.

14. Commentary on results (continued)

Earnings per share

Basic earnings per share increased from 35.56 cents to 56.68 cents.

Diluted earning per share increased from 35.56 cents to 55.74 cents.

Returns to shareholders

There were no returns to shareholders during the financial year other than dividends. Refer item 7 above.

15. Status of audit

The attached 2012 Consolidated Financial Report has been audited.

16. Dispute or qualification if not yet audited

Not applicable.

17. Dispute or qualification if audited

Not applicable.

Suncorp Group Limited and subsidiaries ABN 66 145 290 124

Directors' report & consolidated financial report

30 June 2012

One Company
Many Brands

SUNCORP GROUP

Suncorp Group Limited and subsidiaries

ABN 66 145 290 124

Directors' Report

for the financial year ended 30 June 2012

The directors present their report together with the financial report of the **Suncorp Group**, being Suncorp Group Limited (the **Company**) and its subsidiaries for the financial year ended 30 June 2012 and the auditor's report thereon.

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1. Directors

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

Ilana R Atlas
BJuris (Hons) (WAust); LLB (Hons) (WAust), LLM (Syd)
Age 57
Non-executive director
Chairman Remuneration Committee and Member Risk Committee

Director since January 2011. Ms Atlas is a director of Coca-Cola Amatil Limited and Westfield Holdings Limited, Chairman of Bell Shakespeare, and is also Pro-Chancellor of the Australian National University.

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

Listed company directorships held since 1 July 2009

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

William J Bartlett
FCA, CPA, FCMA, CA (SA)
Age 63
Non-executive director
Chairman Audit Committee and Member Risk and Remuneration Committees

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

Mr Bartlett also has extensive experience in the actuarial, insurance and financial services sectors through membership of many industry and regulatory advisory bodies including the Life Insurance Actuarial Standards Board (1994–2007). He is Chairman of the Council of Governors of the Cerebral Palsy Foundation.

Listed company directorships held since 1 July 2009

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

Michael A Cameron
FCPA, FCA, FAICD
Age 52
Non-executive director

Director since April 2012. Mr Cameron is the CEO and Managing Director of The GPT Group and has over 30 years' experience in finance and business. Mr Cameron is a Fellow of each of the Australian Institute of Chartered Accountants, CPA Australia and the Australian Institute of Company Directors.

His past experience includes roles at Barclays Bank and 10 years with Lend Lease where he held a number of senior positions including Group Chief Accountant and Chief Financial Officer of MLC Limited. Following the acquisition of MLC by the National Australia Bank, Mr Cameron was appointed Chief Financial Officer and then Chief Operating Officer of the NAB Wealth Management Division.

Mr Cameron joined the Commonwealth Bank of Australia in 2002 and was appointed to the role of Group Chief Financial Officer in early 2003. In 2006 he was appointed to the position of Group Executive of the Retail Bank Division.

Mr Cameron was Chief Financial Officer at St. George Bank Limited from mid-2007 until the sale to Westpac in December 2008.

Listed company directorships held since 1 July 2009

Company name	Appointed	Resigned
GPT Management Holding Limited (The GPT Group)	01.05.09	
Suncorp-Metway Limited	16.04.12	

Former non-executive director

Paula J Dwyer
BComm, FCA, FAICD, FFin
Age 51

Non-executive director from 22 December 2010 to 28 February 2012 and director of Suncorp-Metway Limited from 26 April 2007 to 28 February 2012.

At the date of her resignation Ms Dwyer was Chairman of the Suncorp Group Limited Audit Committee, Chairman of Tabcorp Holdings Limited, a director of Leighton Holdings Limited, a member of the Takeovers Panel and Deputy Chairman of the Baker IDI Heart and Diabetes Research Institute.

Ms Dwyer's professional experience was in securities, investment banking and chartered accounting, holding senior positions with Ord Minnett (now J P Morgan) and PricewaterhouseCoopers. She was formerly a director of Promina Group Limited, David Jones Limited, Fosters Group Limited and Astro Japan Property Group Limited.

Listed company directorships held since 1 July 2009

Company name	Appointed	Resigned
Astro Japan Property Group Limited	19.02.05	31.12.11
Foster's Group Limited	09.05.11	16.12.11
Healthscope Limited	10.03.10	12.10.10
Leighton Holdings Limited	01.01.12	
Suncorp-Metway Limited	26.04.07	28.02.12
Tabcorp Holdings Limited	30.08.05	

1. Directors (continued)

Audette E Exel
BA, LLB (Hons)
Age 49
Non-executive director

Director since June 2012. Ms Exel is a founder of the ISIS Group and Chief Executive Officer of its Australian company, ISIS (Asia Pacific) Pty Limited. She is also Vice Chairman of the Board of The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited.

Before establishing the ISIS Group, Ms Exel was Managing Director of Bermuda Commercial Bank (1993–96), Chairman of the Bermuda Stock Exchange (1995–96) and was on the Board of Bermuda's central financial services regulator (1999–2005).

Prior to joining Bermuda Commercial Bank, Ms Exel practised as a lawyer specialising in international finance. She began her career with Allen, Allen and Hemsley in Sydney, Australia before joining the English firm of Linklaters & Paines in their Hong Kong office. She is called to the Bars of New South Wales, Australia; England and Wales; and Bermuda.

Listed company directorships held since 1 July 2009

Company name	Appointed	Resigned
Suncorp-Metway Limited	27.06.12	

Former non-executive director

Stuart I Grimshaw
BCA (Vic, NZ), MBA, PMD (Harvard)
Age 51

Non-executive director from 27 January 2010 to 23 August 2011
Member Audit and Risk Committees to 23 August 2011

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

Mr Grimshaw has over 25 years' experience in the banking and financial services industry, both in Australia and abroad. He formerly held senior positions at Commonwealth Bank of Australia including Chief Financial Officer, Group Executive Premium Business and Group Executive Wealth Management.

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

Listed company directorships held since 1 July 2009

Company name	Appointed	Resigned
Suncorp-Metway Limited	27.01.10	23.08.11

Ewoud J Kulk
BEcon, FAICD
Age 66
Non-executive director
Chairman Risk Committee and Member Remuneration Committee

Director since December 2010 and director of Suncorp-Metway Limited since March 2007. Mr Kulk is Chairman of AA Insurance Limited (NZ), a director of the Westmead Millennium Institute, a member of the NSW Council of the Australian Institute of Company Directors and a past president of the Insurance Council of Australia. He has over 25 years' experience in the insurance industry.

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

Listed company directorships held since 1 July 2009

Company name	Appointed	Resigned
Suncorp-Metway Limited	20.03.07	

Douglas F McTaggart
BEcon (Hons), MA, PhD, DUniv
Age 59
Non-executive director
Member Audit Committee

Director since April 2012. Dr McTaggart is currently a director of Telesso Technologies Limited, a Councillor on the National Competition Council and a member of the COAG Reform Council. In March 2012 he was appointed to the Queensland Government Independent Commission of Audit and Chairman of the Public Service Commission. He has also served in other advisory roles to government as well as holding positions on, including chairing, various industry representative bodies.

Dr McTaggart was Chief Executive of QIC Limited for 14 years until his retirement in June 2012. Prior to joining QIC he was the Under Treasurer and Under Secretary of the Queensland Department of Treasury and had a distinguished academic career including the roles of Professor of Economics and Associate Dean at Bond University.

Listed company directorships held since 1 July 2009

Company name	Appointed	Resigned
Suncorp-Metway Limited	16.04.12	
Telesso Technologies Limited	01.11.07	

Directors' Report (continued)

1. Directors (continued)

Geoffrey T Ricketts
LLB (Hons)
Age 66
Non-executive director
Member Audit Committee

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

Mr Ricketts was a director of Promina Group Limited at the date of merger with the Suncorp Group. He was formerly Chairman of Royal & Sun Alliance's New Zealand (R&SA NZ) operations having been a non-executive director of R&SA NZ for over ten years.

Listed company directorships held since 1 July 2009

Company name	Appointed	Resigned
Heartland New Zealand Limited (NZX)	05.01.11	
Lion Nathan Limited	13.06.88	Delisted 28.10.09
Spotless Group Limited	08.07.96	16.08.12
Suncorp-Metway Limited	20.03.07	
Taylors Group Limited (NZX)	13.01.92	18.12.09

Patrick J R Snowball
MA, Hon. LL.D
Age 62
Managing Director and Group Chief Executive Officer
(**Group CEO**)

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

Under Mr Snowball's leadership, Suncorp has refocused its strategy, simplified its company structure and business operations to make the Group more efficient and delivered a Building Blocks program that has both completed the integration of the Suncorp and Promina businesses and secured the financial benefits of that acquisition.

Prior to joining Suncorp, Mr Snowball was a member of the executive teams at both Norwich Union plc and Aviva plc, the world's fifth largest insurance group and the largest insurance provider in the United Kingdom that was created through the merger of Norwich Union and CGU plc. From 2005 to 2007, he was Group Executive Director, Aviva United Kingdom and responsible for general insurance, life risk and life risk investment businesses. Mr Snowball worked with the Towergate group of companies in both a deputy chairman and chairman's roles and served as a non-executive director of Jardine Lloyd Thompson plc.

He was a member of the Financial Services Authority (UK) Practitioner Panel, representing Life and General Insurance, from 2006 to 2008.

Listed company directorships held since 1 July 2009

Company name	Appointed	Resigned
Suncorp-Metway Limited	01.09.09	

Former non-executive director and Chairman

John D Story
BA, LLB, FAICD
Age 66

Non-executive Chairman 22 December 2010 to 27 October 2011, non-executive director of Suncorp-Metway Limited since March 1995 and Chairman since March 2003 until his retirement in October 2011.

Ex-officio member Audit, Risk and Remuneration Committees during his tenure as Chairman.

Mr Story was a partner of the national law firm Corrs Chambers Westgarth for 36 years, retiring on 30 June 2006. Mr Story practised in the areas of corporate and commercial law and served as Queensland Managing Partner and National Chairman.

At the date of his retirement, Mr Story was Chairman of Echo Entertainment Group Limited, a director of CSR Limited, Chancellor of The University of Queensland and a Commissioner of the Public Service Commission (Queensland).

Listed company directorships held since 1 July 2009

Company name	Appointed	Resigned
CSR Limited	12.04.03	12.07.12
Echo Entertainment Group	09.06.11	08.06.12
Suncorp-Metway Limited	24.01.95	27.10.11
Tabcorp Holdings Limited	29.01.04	08.06.11

Zygmunt E Switkowski
BSc (Hons), PhD, FAICD, FTSE
Age 64
Non-executive Chairman
Ex-officio member Audit, Risk and Remuneration Committees

Chairman since October 2011, Director since December 2010 and director of Suncorp-Metway Limited since September 2005. Dr Switkowski is Chairman of Opera Australia, a director of Tabcorp Holdings Limited, Oil Search Limited and Lynas Corporation Ltd, and Chancellor of RMIT University.

Dr Switkowski is a Fellow of both the Australian Academy of Technological Sciences and Engineering and the Australian Institute of Company Directors.

Dr Switkowski is the immediate past Chairman of the Australian Nuclear Science and Technology Organisation, a former Chief Executive Officer of Telstra Corporation Limited, Optus Communications Ltd and former Chairman and Managing Director of Kodak Australasia Pty Ltd.

Listed company directorships held since 1 July 2009

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

2. Company secretary

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

Clifford R Chuter B Bus was appointed to the position of company secretary in March 1997 following the merger of Metway Bank Limited, the Suncorp Group and QIDC. Prior to the merger, Mr Chuter held the role of company secretary with the Suncorp Group for 10 years. Mr Chuter resigned as company secretary on 31 October 2011.

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

3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year ended 30 June 2012 were:

	BOARD OF DIRECTORS		AUDIT COMMITTEE		RISK COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
Dr Z E Switkowski	11	11	3	2	5	5	6	6	5	5
P J R Snowball	11	11	4	4[1]	5	4[1]	6	6[1]	-	-
I R Atlas	11	11	-	-	5	5	6	6	5	5
W J Bartlett	11	11	4	4	3	3	6	5	5	5
M A Cameron	3	3	-	-	-	-	-	-	2	2
P J Dwyer	7	7	3	3	-	-	-	-	3	3
A E Exel	1	1	-	-	-	-	-	-	-	-
S I Grimshaw	2	1	1	-	1	1	-	-	2	-
E J Kulk	11	11	-	-	5	5	6	6	5	5
D F McTaggart	3	3	-	-	-	-	-	-	2	2
G T Ricketts	11	11	3	2	-	-	-	-	5	5
J D Story	4	4	1	1	2	2	2	2	2	2

A number of meetings held during the year while the director was a member of the Board or committee.
B number of meetings attended by the director during the year while the director was a member of the Board or committee.
[1] The Group CEO attends Audit Committee, Risk Committee and Remuneration Committee meetings at the invitation of those committees. There are no management representatives appointed as members of any board committee.

4. Remuneration Report

The Remuneration Report is set out on page 13 and forms part of the Directors' Report for the financial year ended 30 June 2012.

5. Principal activities

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

There were no significant changes in the nature of the activities of the Suncorp Group during the year.

5.1 Suncorp Group's objectives

The Suncorp Group continues to focus on building the 'One Company. Many Brands.' model across Australia and New Zealand and aims to demonstrate that working as 'One Company. Many Brands.' delivers more value to stakeholders than operating as five independent businesses.

The underlying strategic objectives of the Suncorp Group are to:

- refine and demonstrate the inherent competitive advantages of each business
- grow the value of Suncorp Group's 'strategic assets' – Capital, Cost, Customer and Culture
- optimise the role of each business within the portfolio in terms of capital creation, investment and growth options for the longer term.

The priority for the Suncorp Group over the next three years is simplifying the business and continuing to improve returns to shareholders.

6. Operating and financial review

6.1 Overview of the Suncorp Group

In the financial year ended 30 June 2012, the Suncorp Group has delivered:

- improved shareholder returns
- revenue growth in targeted markets across all business lines
- reduced operating expenses at a time of significant investment in the business; and
- improved or stable margins.

This outcome has been achieved against a backdrop of a subdued domestic economy, volatile investment markets and another year of adverse weather experience.

In the financial year ended 30 June 2012, natural hazard costs have been $278 million above the Suncorp Group's expectation, Australian Government bond rates have reached near record lows, credit spreads have widened, equity markets have declined and property values have continued to fall. The Suncorp Group's strength in managing through this period has been demonstrated by the consolidated net profit after tax of $728 million, an increase of 60% on the prior financial year of $457 million.

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Banking net profit after tax was $26 million. The run-off of the non-core portfolio progressed ahead of expectations, with total lending reducing by $2,842 million. Impairment losses on banking loans and advances increased by $80 million to $405 million for the financial year.

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The Suncorp Group's improved balance sheet and surplus capital position has enabled the Board to declare a final dividend of 20 cents per share and a special dividend of 15 cents per share. Both dividends will be fully franked. Dividend payments for the full year total 55 cents per share, up from 35 cents per share in the prior financial year.

6.2 Financial position and capital structure

The Suncorp Group's capital base has remained relatively stable in recent years with the quality of capital steadily improving due to the redemption of lower quality capital instruments.

Over the financial year, the Suncorp Group's capital requirements have increased due to the organic growth of the core business, the exposure to equities in the General Insurance shareholder fund portfolio and the impact of falling discounts rates on the Suncorp Life policyowner liabilities. This has offset the capital released from the non-core loan portfolio run-off.

In addition to supporting growth, the improved quality and strength of the capital position has enabled the Suncorp Group to:

- redeem $221 million of subordinated debt in October 2011
- exchange $72 million of Reset Preference Shares for cash consideration in September 2011
- declare a final dividend of 20 cents per share, bringing the full year ordinary dividend to 40 cents per share, an increase of 14% on the prior year dividend
- declare a special dividend of 15 cents per share
- maintain a zero discount on the Dividend Reinvestment Plan (DRP) for both dividends and neutralise the impact by buying shares on-market; and
- increase the target dividend payout ratio to 60% to 80% of cash earnings (from 50% to 70%).

At 30 June 2012, on a regulated entity basis, the Bank's Capital Adequacy Ratio (CAR) is 12.6% (2011: 13.4%). The Bank is well positioned to meet the upcoming Basel III regulatory requirements. The General Insurance group's Minimum Capital Requirement (MCR) is 1.61 times (2011: 1.67 times) the regulatory minimum. Additionally, after allowing for the final ordinary and special dividends, $468 million of capital is held by Suncorp Group Limited.

Given improved capital composition, further certainty around future regulatory requirements and the successful placement of the 2013 financial year reinsurance program, the Board has declared a special dividend of 15 cents per share. This distribution recognises the significant progress that has been made in transforming and simplifying the Suncorp Group and the strength of its balance sheet and additional capital position.

6.3 Impact of legislation and other external requirements

Significant legislative and regulatory changes as well as a number of Government enquiries that impact or could impact the Suncorp Group's operations continue to take place in Australia and New Zealand. After the severe floods in Australia during late 2010 and early 2011, the Queensland Floods Commission of Inquiry released its final report in March 2012. The Commission made findings in respect of the Wivenhoe Dam operators and insurers as well as several recommendations. The recommendations in respect of insurers, if adopted, will mean some changes to the claims handling process and operations of insurers.

The Federal Government, after consultation with the industry, has prescribed a standard definition of "flood" that will apply to home building, home contents, home building and contents and strata title residence insurance as well as small business insurance cover that covers loss or damage to equipment, stock, inventory or premises of a small business.

The Federal House of Representatives Standing Committee on Social Policy and Legal Affairs released its report on the operation of the insurance industry during disaster events earlier this year. The Committee made several recommendations in respect of insurers, some of which have already been implemented and some of which are the subject of further consultation or consideration. All of the recommendations, if implemented, will impose additional obligations on general insurers in relation to claims processing, internal dispute resolution practices and underwriting liabilities.

The Federal Government continues to work on establishing a proposed national catastrophic injury and disability insurance scheme. The new national disability insurance scheme will provide insurance cover for all Australians in the event of significant disability except for disabilities covered under the no fault national injury insurance scheme. At this stage the support of state and territory governments for the proposed no fault national injury insurance scheme is mixed. Any such scheme would be expected to comprise a federation of current individual state and territory compensation schemes which would provide fully funded care and support for all catastrophic injuries on a no fault basis.

The Australian Prudential Regulation Authority (APRA) is in the process of finalising the new Life and General Insurance Capital framework (LAGIC) that will come into effect on 1 January 2013.

APRA has finalised the prudential framework for implementing Basel III capital reforms in Australia which will be progressively applied from 1 January 2013. The Basel III reforms will strengthen the capital framework for authorised deposit-taking institutions (ADIs) in Australia.

The *Competition and Consumer Act 2010* (previously called the *Trade Practices Act*) has been amended to give the Australian Competition and Consumer Commission power to prosecute price signalling.

The national consumer credit lending reforms continue with changes to disclosure requirements for consumer credit lenders in respect of home loans and credit cards (the home loan and credit card key fact sheet) and regulation in respect of reverse mortgages, consumer leases, National Credit Code enhancements and short-term small amount lending.

The *Banking Amendment (Covered Bonds) Act 2011* has been passed allowing ADIs to issue covered bonds. The Suncorp Group has made a successful issue of bonds following the enactment of the legislation.

The *Personal Property Securities Act 2009*, a national law which regulates lending secured over personal property interests, has come into effect.

The Stronger Super reforms are in the process of being implemented. The reforms will significantly impact superannuation in Australia with key proposals such as the replacement of existing default funds by a new low cost simple superannuation product called MySuper, and SuperStream reforms that are intended to streamline the 'back office' operations of superannuation funds.

The key legislation to implement the Future of Financial Advice reforms (FOFA reforms) has been passed by Federal Parliament and came into effect on 1 July 2012 with the financial planning industry having until 1 July 2013 to comply. The key FOFA reforms include a prospective ban on upfront and trailing commissions and like payments for both individual life and group risk cover within superannuation from 1 July 2013 and the imposition of the statutory 'best interests' duty which will require financial advisers to act in the best interests of their client and give priority to their client's interests and take reasonable steps to discharge that duty.

APRA continues consultation on the Level 3 supervision of conglomerates and expects to finalise and implement the proposals by 1 January 2014.

6.3. Impact of legislation and other external requirements (continued)

The national uniform occupational health and safety laws have not been fully adopted, with some states and territories delaying or refusing to adopt the national laws. Different state-based requirements continue to apply to the Suncorp Group's operations.

The Federal Government has introduced the proposed reforms to Australia's privacy laws into Federal Parliament. The reforms include new privacy principles and credit reporting reforms.

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

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

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

The *Insurance (Prudential Supervision) Act 2010* (IPSA) which requires virtually all insurers to be licensed by the Reserve Bank of New Zealand is now in force. Insurers are required to hold a full licence by 7 September 2013.

The Financial Markets Conduct Bill has been passed which implements a new 'one stop shop' for securities law. The Act replaced the *New Zealand Securities Act 1978* and the *Security Markets Act 1988*.

The ASX Corporate Governance Council introduced changes to the Corporate Governance Principles and Recommendations (2nd edition) on 30 June 2010. These included new recommendations relating to diversity that applied to a listed entity's first financial year commencing on or after 1 January 2011. As an early adopter, the Suncorp Group commenced reporting last year on measurable objectives to achieve gender diversity.

Progress in gender diversity has seen a 2% increase to women in leadership roles to 33% - the target the Suncorp Group set to achieve by 30 June 2014, as well as being awarded the Equal Opportunity for Women in the Workplace Agency Employer of Choice for Women citation for 2012.

Further detail on the Suncorp Group's diversity program is provided in the Corporate Governance Statement.

6.4 Review of principal businesses

General Insurance profit after tax was $493 million (2011: $392 million).

The Insurance Trading Result (ITR) was $511 million (2011: $412 million), representing an ITR ratio of 7.5% (2011: 6.6%). The increase in ITR has been driven by strong premium growth, delivery of the Building Blocks program of work and a tight focus on expense management.

Gross Written Premium (GWP) increased 9.3% to $7,955 million. Personal lines experienced growth across both Home (up 17.6%) and Motor (up 3.2%), with net written units and average premiums increasing across both lines. Commercial lines also experienced strong growth, with Commercial Insurance GWP increasing by 11.7%, with growth across the whole portfolio, most notably through rate increases in property classes. Compulsory Third Party GWP increased 4.3%, with increases in NSW average written premium and net written units contributing to the improvement.

Net incurred claims were $5,396 million. Short-tail claims were impacted by a number of major weather events, resulting in net natural hazard claims being $278 million above the Suncorp Group's allowance. Net reserve releases of $166 million were $64 million higher than the long-run expectation due to favourable claims experience in long-tail classes.

Total underwriting expenses of $1,664 million have remained stable. Investment income on insurance funds increased to $718 million due to mark to market gains as a result of falling discount rates. Investment income on shareholder funds was stable at $222 million. In preparation for upcoming LAGIC changes, the Suncorp Group diversified the shareholder funds portfolio by introducing exposure to equities and international fixed interest credit during the second half of the year.

6.4 Review of principal businesses (continued)

Banking profit after tax was $26 million (2011: $84 million).

The Bank continues to maintain separate core and non-core lending portfolios. The Bank's core lending portfolio is focused on relationship-based lending and deposit gathering in personal, small to medium enterprises and agribusiness banking. The focus of the non-core lending portfolio remains on responsible run-off of the portfolio to maximise the value of distributable capital that can be returned to the Suncorp Group. In 2012 the non-core portfolio continued to exceed run-off targets and now represents less than 10% of the Bank's total loan portfolio.

Total banking loans, advances and other receivables increased to $49,210 million. Growth in housing loan receivables recovered from a slow first quarter to finish the financial year at $33,955 million, an increase of 9.6%. This growth is within the Suncorp Group's risk appetite and reflects efforts to build the pipeline through an expanded footprint, improved processes, service delivery and a simplified product proposition. Business lending decreased by 12.9% to $13,392 million, with the run-off of the non-core portfolio partially offset by an increase in the core business portfolio.

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

The Bank's funding capability was significantly enhanced during the financial year by the successful establishment of a covered bond program, which will enable the Bank to issue both domestically and in offshore markets. The inaugural issue of $1,600 million was under taken in May 2012 with significant investor support. This was a first for a non-major Australian bank, highlighting the Bank's funding accessibility.

Net interest income increased 2.0%, in line with growth in average lending assets. On-going competition for term deposits continued to put downward pressure on retail funding margins.

Operating expenses increased 5.1%, supporting higher sales volumes, expansion of the Bank's footprint, investment in the Bank's technology platform and the commencement of the Basel II advanced accreditation program. The first phase of the Bank's core system replacement program is now complete, following the successful implementation of the Customer Relationship Management, Broker Commission and Trade Finance systems.

Impairment losses for the financial year were up 24.6% at $405 million. The higher impairment loss charge reflected sector weakness in regional and suburban retail shopping centres and for long-term land development projects. The Bank actively provisioned and wrote down underperforming exposures in these segments where recovery was deemed highly unlikely. Total provision for impairment at 30 June 2012 was $537 million, representing a decrease of 4.8% on the prior financial year.

Life profit after tax was $251 million (2011: $149 million), benefiting from the favourable impact of falling yields on policy liabilities.

The Life Risk business was impacted by adverse experience particularly in disability claims and lapses. Life Risk new business sales were $111 million, was up 6.7%, with growth in both the Independent Financial Advisor Australia and direct channels. Superannuation new business sales were $326 million, down 12.6% in a subdued market. Funds Under Administration of $7,111 million, was down 7.6%, due to investment market volatility driving weak consumer confidence. Operating expenses have remained stable with simplification benefits offsetting increased investment in the IFA and direct channels.

6.5 Significant changes in the state of affairs

The Suncorp Group has continued on its transformation journey and has now established a stable and efficient platform for growth. The Suncorp Group's strategy, including its purpose and strategic priorities, has been re-articulated and the Group's strategic assets of Capital, Cost, Customer and Culture clearly identified.

The Building Blocks infrastructure programs, which involved consolidation of the Suncorp Group's pricing, claims, finance, customer and people systems, have now been delivered and the Suncorp Group is realising the benefits.

A merger of the Suncorp Group's two life insurance companies, Asteron Life Limited and Suncorp Life and Superannuation Limited, was also executed under Part 9 of the *Life Insurance Act.*

As part of the next stage in the transformation journey, the Suncorp Group has undertaken a strategic simplification program that seeks to drive greater flexibility, efficiency and agility across the organisation, its processes and tools, enabling the Suncorp Group to take advantage of future growth opportunities.

6.6 Environmental regulation

The *Building Energy Efficiency Disclosure Act 2010* requires the Suncorp Group to obtain a Building Energy Efficiency Certificate for any building where it plans to sell or sublease commercial office space above 2,000 square metres.

The *National Greenhouse and Energy Act 2007* (NGER) introduced a framework for corporations to report greenhouse gas emissions and energy consumption and production. The Company reported under the NGER scheme for the first time in 2010/11 after reaching the reporting threshold, and will continue to report on an annual basis.

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

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

7. Dividends

A fully franked 2012 interim dividend of $257 million (20 cents per share) was paid on 2 April 2012. A fully franked 2012 final dividend of $257 million (20 cents per share) and a fully franked 2012 special dividend of $193 million (15 cents per share) has been declared by directors.

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

8. Events subsequent to reporting date

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

9. Likely developments

Over the course of the next three years, the Suncorp Group will build on the foundations laid by the Building Blocks program and progress its simplification program. This program aims to invest in modern platforms and systems, reduce the cost of operating and maintaining legacy infrastructure, further streamline legal structures and transition more of the Suncorp Group's cost base onto a variable footing. The key areas of focus for the program include:

- the decommissioning of legacy policy systems in general insurance and the consolidation of the Suncorp Group's existing general insurance licences
- improving the core banking platform and better understanding the Bank's risk frameworks; and
- undertaking an operational excellence program, partnering with global partners and focusing on those high value activities that give the Suncorp Group a strategic advantage.

In addition, the Suncorp Group will remain focused on growth in its core banking, general insurance and life operations while continuing with the run-off of the non-core banking portfolio.

The Suncorp Group has improved the quality of its capital and the focus will now be to broadly maintain current gearing levels. As a result, the Suncorp Group will now consider replacing capital instruments that are scheduled to mature.

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

10. Directors' interests

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

	2012 fully paid ordinary shares
Dr Z E Switkowski	201,599
I R Atlas	6,370
W J Bartlett	26,968
M A Cameron	-
A E Exel	-
E J Kulk	20,173
Dr D F McTaggart	-
G T Ricketts	24,850
P J R Snowball [1]	987,333

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

11. Indemnification and insurance of officers

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

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

During the financial year ended 30 June 2012, the Company paid insurance premiums in respect of a directors' and officers' liability insurance contract. The contract insures each person who is or has been a director or executive officer (as defined in the *Corporations Act 2001*) of the Company against certain liabilities arising in the course of their duties to the Company and its subsidiaries. The directors have not included details of the nature of the liabilities covered or the amount of the total premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

12. Non-audit services

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

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

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

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

	2012 $'000	2011 $'000
Services other than statutory audit		
Audit-related fees (regulatory)		
APRA reporting	**1,008**	649
Risk management	**74**	72
Australian Financial Services Licences	**121**	108
Other regulatory compliance services	**782**	995
	1,985	1,824
Audit-related fees (non-regulatory)		
Other assurance services	**979**	944
	979	944
Non-audit related		
Other services	**-**	65
Tax fees		
Tax compliance	**9**	12
	2,973	2,845

13. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 39 and forms part of the Directors' Report for the financial year ended 30 June 2012.

14. Rounding off

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

2012 Remuneration Report

Dear Shareholder,

The Board is committed to communicating remuneration arrangements simply, clearly and transparently and has again, this year, sought to improve the Remuneration Report with these objectives in mind.

The Suncorp Group's approach to remuneration is based on providing competitive rewards that motivate talented employees to deliver superior and sustainable returns for shareholders. This approach is based on five guiding principles:

- align sustainable performance with reward
- align effective risk management with reward
- balance stakeholder interests
- deliver a competitive advantage by attracting and retaining the right people; and
- support the Suncorp Group values and culture.

These principles, which are explained in more detail in the Remuneration Report, have guided the Board's decisions in relation to remuneration for the financial year ended 30 June 2012.

Responsibility for governance of remuneration lies with the Board supported by the Board Remuneration Committee. The objectives of this governance are to ensure that the practices and processes are sound and driven by the five guiding principles.

The Board knows that shareholders want remuneration to be explained as simply as possible within the context of a complex subject.

The Remuneration Report for the Suncorp Group follows this letter. The Board hopes shareholders find it easy to read and contains all the information they require.

In addition to statutory reporting requirements, a section summarising remuneration for the financial year ended 30 June 2012 and anticipated changes for the financial year ending 30 June 2013 has been included.

Ziggy Switkowski
Chairman of the Board

Ilana Atlas
Chair, Remuneration Committee

22 August 2012

Using this Remuneration Report

Remuneration Report

The Board presents the Suncorp Group's Remuneration Report for 2012. This Report, forms part of the Directors' Report and sets out remuneration details for the Suncorp Group's key management personnel (KMP). KMP are the people who have authority and responsibility for planning, directing and controlling the activities of the Suncorp Group and they are disclosed in the tables in sections 2.8 and 3.4.

This Remuneration Report is structured as follows:

- Section 1 presents an overview of the remuneration framework and developments in 2012
- Section 2 presents the remuneration for the Group CEO and Senior Executives (defined to be executives reporting to the Group CEO who are KMP); and
- Section 3 presents the remuneration for the non-executive directors (who are also KMP).

Sections 2 and 3 have been audited in accordance with Section 308(3C) of the *Corporations Act 2001*.

1. Remuneration overview – unaudited

The Suncorp Group's remuneration philosophy is based on providing competitive rewards that motivate appropriately qualified directors and executives to deliver superior and sustainable performance for shareholders. The Board is committed to fair and responsible remuneration and to communicating remuneration arrangements simply, clearly and transparently.

1.1. Remuneration in 2012

Influences on remuneration in 2012

The Suncorp Group has continued to strengthen the business during 2012 through the sound execution of its business plans. Results in 2012 demonstrate the Group's strategy is delivering increased profits, top-line growth, effective cost control and a stronger balance sheet. These results have been achieved against a background of continued market dislocation together with abnormal adverse weather and natural hazard events. The strong underlying financial performance has allowed an enhanced dividend yield to shareholders as outlined in section 2.8.

The Suncorp Group's business transformation aims to deliver sustained benefits to key stakeholders. Innovative products and efficient claims management have played a key role in supporting customers and their communities. Investment in our people continues through the delivery of a more flexible work environment and a number of programs designed to develop leaders and enhance career satisfaction. Effectively managing risk in accordance with risk appetite remained prominent in 2012, with a focus on building both capability and capacity to enhance the outcomes of the Suncorp Group's risk management framework.

Following the successful delivery of key projects in 2011 such as the implementation of the Non-Operating Holding Company (NOHC), the Building Blocks Program and improvements in the internal management of Suncorp Group capital, 2012 introduced a further simplification program to improve efficiencies, and reduce costs and complexity in our business.

Executive remuneration governance in 2012

The remuneration framework was fundamentally revised in 2011. The Remuneration Committee believes that remuneration has a greater capacity to effectively motivate employees if the framework remains consistent over a reasonable period of time, and so no significant changes to the remuneration framework for Senior Executives were recommended in 2012 except for the changes to the remuneration of the Group CEO set out below.

Instead, the Committee's focus has been on enhancing governance practices to ensure effective performance and risk management are deeply embedded into remuneration processes by:

- reviewing the remuneration framework and governance practices to ensure they remain sound
- reinforcing the embedding of incentive deferral reforms introduced in 2010 and 2011 (refer to section 2.6); and
- establishing governance processes for effecting clawback provisions (award reduction or forfeiture) in respect of executives' remuneration.

1.1 Remuneration in 2012 (continued)

Executive remuneration governance in 2012 (continued)
The Remuneration Committee will closely monitor the framework to ensure it continues to meet our key goal of aligning employee and shareholder interests by rewarding people for delivering sustainable, long-term performance. While certain that this will evolve in response to new regulations and emerging capital requirements, the Committee believes the approach is fundamentally sound and will continue to serve us well.

Further details of remuneration governance are in section 2.1.

Changes to the Group CEO's remuneration
The Board was pleased that Patrick Snowball, the Group CEO, entered into a new contract with the Suncorp Group in August 2011, moving from a fixed term contract. The Board is confident the new arrangements will ensure that Mr Snowball continues with the Suncorp Group and completes the current transformation plans. The details of Mr Snowball's new contract were released in August 2011 and are contained in section 2.10 of this Report.

As part of the new contractual arrangements, the Board increased Mr Snowball's total remuneration. Part of the remuneration arrangements is a long-term incentive for 2013 comprised of a grant of performance rights which is subject to shareholder approval at the annual general meeting to be held on 25 October 2012.

For additional details on the Group CEO's remuneration arrangements, including details of the proposed long-term incentive award, see sections 2.6 and 2.7.

1.2. Remuneration framework reviewed regularly

The Board monitors the reward strategy and framework to ensure it continues to be effective in supporting business and regulatory requirements and reflects investor feedback and contemporary market practice. The remuneration policy is reviewed annually and other remuneration governance arrangements are reviewed periodically, at least every two years.

1.3. 2012 Actual remuneration outcomes

Fixed remuneration
The Board approved fixed remuneration increases for Senior Executives effective October 2011, after the Remuneration Committee considered independent benchmarking against peer comparator groups and assessed individual performance and contributions to the Suncorp Group.

Short-term incentives 2012
The short-term incentive (STI) program rewards employees for strong performance outcomes and, together with the risk considerations that are integrated within the reward process, keeps them focused on the long-term profitability of the Suncorp Group. The performance targets within the STI are designed to provide stretching performance objectives (see section 2.6).

The Board takes into account both financial and non-financial results for the Group CEO and Senior Executives. The Group CEO's STI depends on the performance of the Suncorp Group as a whole. Members of the Senior Leadership Team have key performance indicators that are tied to Suncorp Group and their business unit or Suncorp Group function goals. The evaluation of performance includes non-financial, qualitative criteria including the ability to manage risk, service customers, drive change in the organisation, establish strong teams and develop new leadership. All Senior Executives are also assessed based on how effectively they adhere to and apply the Suncorp Group's strategic principles and values. The alignment of Senior Executives to Suncorp Group goals is intentional. It ensures that all Senior Executives are focused on the success of the strategy encapsulated in 'One Company. Many Brands'.

Performance is evaluated rigorously to ensure STI outcomes are appropriately determined. The 2012 result is largely influenced by the weighting and assessment of financial and non-financial performance against challenging targets established at the beginning of the financial year. Taking all performance factors into account, 2012 STI outcomes have been determined by the Board as slightly below target. See section 2.8 for an overview of performance results and STI outcomes.

1.3 2012 Actual remuneration outcomes (continued)

Short-term incentives 2012 (continued)

The deferred portion of the 2010 STI for the Group CEO, which vested on 31 July 2012, will be received in the 2013 financial year.

For Senior Executives, no deferred STI vested in 2012.

Long-term incentives

The long-term incentive (LTI) performance hurdles for plans with a vesting date in 2012 were not achieved, therefore the October 2006 and April 2007 grants were forfeited.

Remuneration received by the Group CEO and Senior Executives in 2012

Details for 2012 are shown in the non-statutory table below. Further details of the terms and conditions of STI and LTI are set out in sections 2.6 and 2.7.

Non-statutory table – unaudited

Australian Accounting Standards (AASBs) require the calculation of remuneration on an accruals basis, including the use of sophisticated valuation models for long-term share-based incentives. The AASBs require the amortisation of the accounting fair value of the LTI over the associated vesting period, based on assumptions that may or may not eventuate.

To provide greater visibility of remuneration in the current year, the Board has presented details of the actual remuneration received in respect of 2012 in the unaudited table below. These figures represent:

- the actual fixed remuneration received in 2012
- the actual value of incentives that will be received as a result of performance in 2012; and
- the actual value of any deferred incentives and LTIs that vested in 2012.

The audited remuneration disclosures in accordance with AASBs and the *Corporations Act 2001* are presented in section 2.9.

Deferred STI and LTI awards ('at-risk' awards) will crystallise after a two-year and three-year period respectively, subject to relevant performance and service conditions.

Remuneration of the Group CEO and Senior Executives in 2012

	EXECUTIVES	REMUNERATION EARNED IN 2012[1]: FIXED REMUN-ERATION[2] $000	REMUNERATION EARNED IN 2012[1]: 2012 INCENTIVES[3] $000	PAST 'AT-RISK' REMUNERATION RECEIVED IN 2012[4]: DEFERRED INCENTIVES (CASH) VESTED IN 2012 $000	PAST 'AT-RISK' REMUNERATION RECEIVED IN 2012[4]: % VESTING	PAST 'AT-RISK' REMUNERATION RECEIVED IN 2012[4]: LTI (EQUITY) VESTED IN 2012 $000	PAST 'AT-RISK' REMUNERATION RECEIVED IN 2012[4]: % VESTING	ACTUAL REMUNERATION RECEIVED IN 2012[5] $000	FUTURE "AT-RISK" REMUNERATION AWARDED IN 2012[6]: 2012 INCENTIVES (DEFERRED AS CASH)[7] $000	FUTURE "AT-RISK" REMUNERATION AWARDED IN 2012[6]: LTI (EQUITY) GRANTED IN 2012[8] $000
	Executive director									
Group CEO	Patrick Snowball[9]	2,500	1,475	-	-	-	-	3,975	1,475	-
	Senior Executives									
CEO Commercial Insurance	Anthony Day	753	549	-	-	-	-	1,302	296	375
CEO Vero New Zealand	Gary Dransfield	536	390	-	-	-	-	926	210	250
CEO Suncorp Bank	David Foster	768	553	-	-	-	-	1,321	298	375
CEO Personal Insurance	Mark Milliner	803	575	-	-	-	-	1,378	310	390
Group Chief Financial Officer	John Nesbitt	885	637	-	-	-	-	1,522	343	416
Group Executive Human Resources	Amanda Revis	585	429	-	-	-	-	1,014	231	267
CEO Suncorp Business Services	Jeff Smith	784	624	-	-	-	-	1,408	336	390
Group Chief Risk Officer	Robert Stribling[10]	624	647	-	-	-	-	1,271	348	300
CEO Suncorp Life	Geoff Summerhayes	714	527	-	-	-	-	1,241	284	344

1. Remuneration earned in 2012 comprises:
   - fixed remuneration (actual fixed remuneration received, including salary sacrificed benefits and employer superannuation); and
   - incentives which relate to the 2012 performance period that are not deferred.
2. Fixed remuneration takes into account the fixed remuneration increases granted during 2012.
3. Incentives for the 2012 year, to be paid in September 2012. For the Group CEO, this represents 50% of the total STI for 2012. For Senior Executives this represents 65% of the total STI for 2012.
4. Past 'at-risk' remuneration vested and received comprises LTI and deferred STI awarded in previous years that vested during 2012.
5. 'Remuneration earned in 2012' plus 'Past 'at-risk' remuneration received in 2012'
6. Future 'at-risk' remuneration awarded in 2012 comprises the cash value of the deferred incentives, excluding the value of any future interest payable on vesting and the face value of the LTI awarded in 2012 that may conditionally vest in future years, and is not guaranteed.
7. 2012 incentives (deferred as cash) represents the deferred portion of incentives awarded for 2012. For the Group CEO, this represents 50% of the total STI for 2012. For Senior Executives this represents 35% of the total STI for 2012. These awards are subject to potential clawback during the deferral period.
8. LTI (equity) represents the face value of performance rights granted under the EPSP during 2012. For further details of the LTI program, refer to Section 2.7. The Group CEO's proposed 2013 Grant (requiring shareholder approval) is not included.
9. The Group CEO's deferred 2010 STI of $1,082,747 (includes interest accrued during the deferral period) which vested on 31 July 2012 is not included in the table above as it was not earned or received in 2012.
10. Mr Stribling was paid a retention incentive of $300,000 subject to satisfactory performance in addition to his STI for 2012. 65% of this incentive will be paid in cash at the same time as the cash portion of the STI for 2012 and 35% is deferred for two years with the deferred STI for 2012.

2. Executive remuneration – audited

2.1. Remuneration governance

Remuneration Committee

While the Board has overall responsibility for executive remuneration structure and outcomes, it has appointed a Remuneration Committee for advice and recommendations on remuneration-related matters, and also takes account of the advice of the Group CEO (for Senior Executive remuneration), other members of management and, where relevant, independent external advisers.

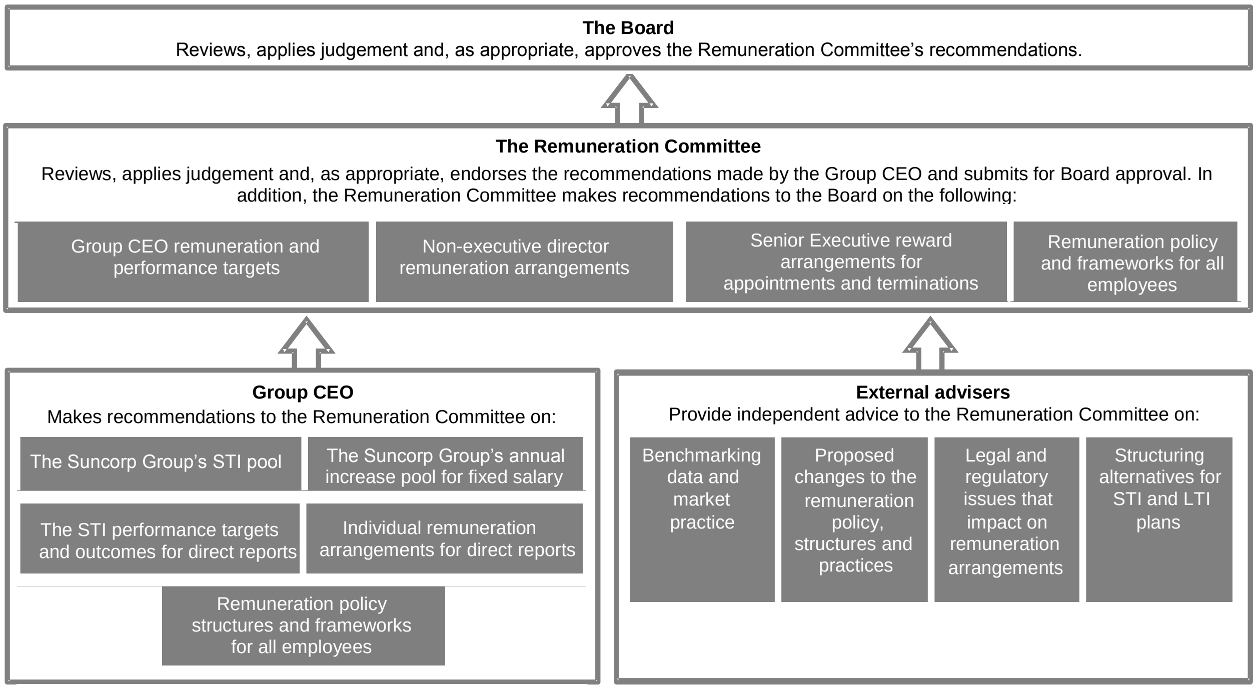
The Remuneration Committee, which met six times in 2012:
- operates to a Board-approved charter
- consists of four independent non-executive directors; and
- is chaired by Ms Ilana Atlas, an independent non-executive director with extensive experience in human resource management.

The members of the Remuneration Committee have an extensive understanding of risk management and are members of the Board's Risk Committee, one of whom is the Risk Committee Chairman. The chair of the Audit Committee is also a member of the Remuneration Committee.

The Remuneration Committee oversees the preparation of this Remuneration Report. Further details about the Remuneration Committee and the Risk Committee are provided in the Corporate Governance Statement, and the Remuneration Committee charter is published on the Company's website at www.suncorpgroup.com.au.

Remuneration governance framework

The following diagram represents the Suncorp Group's remuneration governance framework.



Use of external remuneration advisers

The Board seeks and considers advice from external advisers in relation to remuneration matters where appropriate. Such external advisers report directly to the Remuneration Committee. When external advisers are selected, the Board takes into account potential conflicts of interest, and their terms of engagement regulate their access to, and (where required) set out their independence from, the Suncorp Group's management.

The requirement for the services of external advisers to the Remuneration Committee is assessed annually in the context of the issues the Committee needs to address. The advice and recommendations of external advisers are used as a guide, but do not serve as a substitute for thorough consideration of the issues by each director.

2.1 Remuneration governance (continued)

Use of external remuneration advisers (continued)

The Remuneration Committee appointed PricewaterhouseCoopers (PwC) as the lead external adviser for remuneration matters for 2012. PwC received instructions from, and reported to, the Remuneration Committee. During 2012, PwC did not provide remuneration recommendations and was not a remuneration consultant as defined in the *Corporations Act 2001*.

The external advisers listed below provided information and assistance to management and the Remuneration Committee on a range of matters, as an input to the Committee's recommendations and decision making. During 2012, no remuneration recommendations were provided by these advisers and they were not remuneration consultants as defined in the *Corporations Act 2001.*

Services relating to remuneration matters	External advisers providing this service to Suncorp in 2012
Provision of information to support the changes in the Group CEO's contract	Freehills Ernst & Young
Benchmarking of pay of Senior Executives and non-executive directors against comparable roles at a range of relevant comparator groups	Mercer Consulting (Australia) PwC
Provision of information and commentary on global trends in executive remuneration	Ernst & Young
Performance analysis for LTI awards	Mercer Consulting (Australia)
Support in the review of the Remuneration Report structure on behalf of management	Ernst & Young
Provision of support in understanding the impact of changes in regulatory and legislative environment on remuneration	PwC

2.2. Executive remuneration strategy and policy and how this underpins the Suncorp Group strategy

Remuneration strategy

The Reward Principles establish a framework for integrating and managing performance and risk throughout the Suncorp Group. These principles:

- emanate from a focus on sustainable performance, effective risk management, customer focus, strong governance, and the need to attract and engage a talented workforce
- support the design and implementation of a remuneration strategy that gives full effect to regulatory requirements; and
- support strategic change and foster the overarching Suncorp Group strategy 'One Company. Many Brands.' by integrating relevant non-financial performance measures, and adherence to the Suncorp Group's values.

2.2 Executive remuneration strategy and policy and how this underpins the Suncorp Group strategy (continued)

Reward Principles

1. Align sustainable performance with reward
Reward outcomes are linked to longer term Suncorp Group, business unit and individual performance and risk frameworks, with high-performing individuals receiving greater allocations of variable reward.

2. Align effective risk management with reward
The reward structure provides incentives that specifically take risk into account. Variable compensation delivered through STI is significantly based on risk-adjusted profitability weightings. A separately weighted balanced scorecard category measuring risk management is required and behavioural and cultural measurements assess adherence to the risk management framework, requiring all employees to demonstrate a responsibility for managing and mitigating the risks that may arise in their business.

3. Balance stakeholder interests
Reward outcomes strike a balance between employee and stakeholder (shareholders, customers, regulatory bodies) expectations through the balanced scorecard.

4. Deliver a competitive advantage
Developing a high performance team to deliver sustainable results requires market-competitive reward structures that support the attraction, development and retention of the right people. Rewards are internally equitable, take into account the Suncorp Group's diversity practices, and appropriately balance fixed reward and benefits with the opportunity to earn variable rewards (based on Suncorp Group, business unit and individual performance). To support the focus on variable rewards, performance is evaluated rigorously to ensure incentives are appropriately allocated.

5. Support the Suncorp Group values and culture
The Suncorp Group Board has ultimate responsibility and accountability for remuneration policy, as well as the principles and processes which give effect to that policy. The remuneration policy aims to ensure employee remuneration structures are equitable and strongly linked to the long-term interests of the Suncorp Group. The framework is flexible to accommodate the diversity of the businesses providing the Board with the appropriate discretion to adjust reward structures to accommodate changes to business, financial, regulatory, and market conditions. Non-financial and 'behavioural' performance measures are included in the balanced scorecards for the Group CEO and all Senior Executives.

All employees must demonstrate adherence to the Suncorp values in the way they deliver results, on a day to day basis.

2.3. Remuneration framework and how it links to strategic objectives

The total remuneration opportunity for executives includes both fixed and 'at-risk' components. The 'at-risk' component has both short-term and long-term incentives, which must satisfy performance and risk-related conditions and both are subject to clawback under certain conditions.

The table below provides a summary of each remuneration component and the link to strategic objectives.

	Component	Delivery	Performance and risk alignment	Strategic Priority
Fixed remuneration	***Fixed remuneration*** *Base remuneration (base salary, salary sacrificed benefits, and other benefits) plus superannuation*	Base remuneration is paid in cash. Superannuation paid at a rate of 9% of base remuneration or the maximum contribution base[1], whichever is the lesser.	• Reward commensurate with the size and complexity of the role, individual responsibilities, individual performance, experience and skills. Aligned to market median. • Increases reflect individual performance and contribution to the Suncorp Group taking into consideration market competitiveness. • Superannuation contributions paid according to statutory requirements.	Attract and retain highly engaged and enabled talent.
'At risk' remuneration	***Short-term incentives (including deferral)***	STI is typically paid in cash.[2] For the Group CEO 50%, and for Senior Executives 35%, of the STI is deferred as cash for two years and is subject to potential clawback at the end of the deferral period.	• Rewards executives for their contribution to the Suncorp Group, business unit outcomes and for their individual contribution. • Deferral and potential clawback encourage a longer term focus. • The Board's determination of the Suncorp Group's STI pool includes consideration of risk management through a variety of financial and non-financial measures. • The remuneration governance framework allows the Board to exercise its judgement to reduce STI and deferred STI, if, in the Board's judgement, such an adjustment should occur.	Motivate superior performance and link remuneration to annual business performance. Deferral to encourage longer-term focus and risk management and alignment with shareholders.
	Long-term incentives	Performance rights granted that vest subject to performance hurdles being met and potential clawback[3].	• Rewards executives for their contribution to the creation of long-term shareholder value via exposure to Suncorp Group equity. • Focuses executives on achievement of Total Shareholder Return (TSR) through the use of an external, objective, relative TSR measure to determine outcomes. • The remuneration governance framework allows the Board to exercise its judgement to reduce LTI if, in the Board's judgement, such an adjustment should occur. • Executives cannot hedge equity instruments that are unvested or subject to restrictions.	Motivate superior performance and link remuneration to long-term business performance. Align remuneration with shareholder interests.

1. Employer contributions of 9% of ordinary time earnings are paid up to the maximum contribution base, which for the financial year ending 30 June 2012 was $43,820 per quarter.
2. Typically paid in cash, unless the individual nominates to have all or part of their award paid into superannuation or Suncorp shares (subject to relevant limits).
3. Clawback of LTI is applicable from the October 2010 grant onwards.

Remuneration positioning policy and comparator groups

The total remuneration opportunity for executives is evaluated on an annual basis against relevant peer comparator groups including the S&P/ASX 100 Index and S&P/ASX 50 Index, and bespoke comparator groups.

The Suncorp Group broadly targets fixed remuneration at the market median.

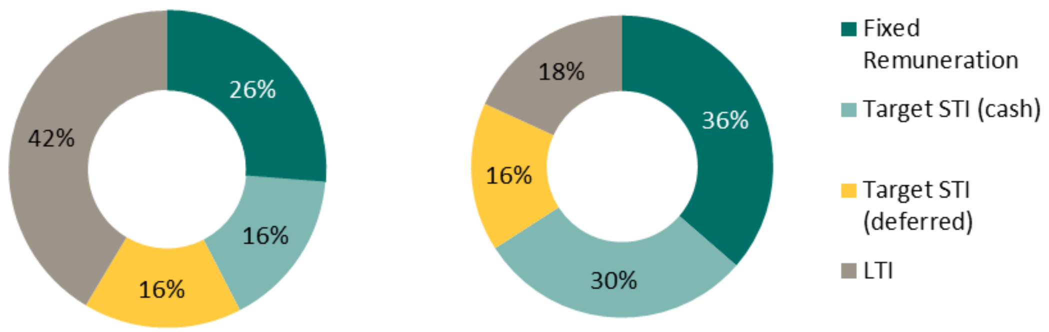
The 'at-risk' component provides the opportunity for total remuneration to reach the upper end of the market spectrum for outstanding performance. To encourage superior performance and achieve that total remuneration opportunity, the proportion of 'at-risk' remuneration (particularly STI) is intentionally positioned towards the upper end of the market.

2.3 Remuneration framework and how it links to strategic objectives (continued)

Remuneration mix policy

The Suncorp Group's 2012 remuneration mix at target for the Group CEO and Senior Executives is presented below. The majority of remuneration for Senior Executives is 'at risk', with the Group CEO's remuneration mix more heavily focused on the longer term.

Group CEO **Senior Executives[1]**



1. Excluding the Chief Executive Officer, Suncorp Business Services, who has a different target STI than other Senior Executives. Refer to section 2.6 for details.

2.4. Remuneration and how it is aligned to risk management

In determining variable remuneration, the Board ensures that risk management is a specific performance goal.

Compliance with the Suncorp Group Risk Appetite Statement is integrated as a central component of overall performance to deliver an organisation-wide focus on the prudent management of the risks faced by the Suncorp Group.

The Suncorp Group risk management practices are governed by an integrated framework incorporating Suncorp Group policies (including the remuneration policy). The performance of each business unit is reviewed and measured with reference to how risk is managed. Individual adherence to risk management polices is also considered.

The Remuneration Committee's starting point when considering STI outcomes is the balanced scorecard STI outcome. The Committee then considers additional factors, such as sustainability and quality of earnings, before making its final determination of the overall STI pool.

Risk assessment is also included in the balanced scorecard through:

- a separately weighted risk measure
- return on eligible capital (a proxy for risk-adjusted return on capital) embedded in the financial measures; and
- the behavioural and cultural measures which consider adherence to the risk management framework.

Consideration of risk is embedded throughout the remuneration framework (refer details included in section 2.3). Specifically, the following risk governance arrangements apply to all employees, as relevant.

STI deferral

A material portion of STI for executives is deferred for two years to maintain executive focus on the long-term sustainability of the Group. At the end of the deferral period, the deferred STI portion may be adjusted (reduced or forfeited) in the event of significant adverse outcomes caused by decisions made, or actions taken, contrary to the Group's interests.

Clawback

Both deferred STI and unvested LTI (from the October 2010 LTI grant onwards) are subject to potential clawback based on the Board's judgement.

2.4 Remuneration and how it is aligned to risk management (continued)

Hedging of unvested awards
Hedging of unvested equity awards is prohibited.

Risk and financial control personnel
Remuneration decisions for employees working in risk and financial control roles are governed by separate performance and remuneration review processes. The performance of employees in these roles is assessed independently of their business area. In addition, employees working in risk roles typically have a comparatively higher percentage of risk-based measures. For 2012, 58% of the balanced scorecard for the Group Chief Risk Officer is based on Group Risk measures.

The Board has discretion to reduce STI and LTI reward outcomes. The Board may exercise its judgement in relation to:

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

2.5. Fixed remuneration is reviewed in line with market practice

Fixed remuneration is reviewed each year in line with the Suncorp Group's remuneration policy, external market and competitor practices and other business and role-critical factors. The Remuneration Committee assesses management's recommendations based on market practice to ensure fixed remuneration is competitive.

2.6. Short-term incentives – targets designed to stretch

The design of the annual STI program rewards executives for achieving Suncorp Group, specific business unit and individual performance relative to stretch performance targets.

STI awards depend on scorecard results
STI awards are impacted by performance against a balanced scorecard of financial and non-financial performance objectives. Targets are designed to be stretching to deliver sustainable value for all stakeholders and are agreed with the Board at the start of each financial year. In assessing the actual STI outcome for each individual executive, the Board exercises its discretion up or down based on value judgements on quality of earnings and other non-financial results.

STI funding pool
The Board determines the size of the annual STI pool available for distribution to all eligible employees, relative to performance against key financial and non-financial outcomes.

The Remuneration Committee takes into account the quality of the financial result, including factors such as the current economic environment, when recommending the size of the Suncorp Group's STI pool to the Board.

2.6 Short-term incentives – targets designed to stretch (continued)

Performance assessment

The diagram below sets out the structure of the 2012 STI program and examples of key performance measures included within the balanced scorecard.

	Target STI	Max STI
Group CEO	125% of fixed remuneration	150% of fixed remuneration
Senior Executives	125%[1] of fixed remuneration	187.5% of fixed remuneration

1. Exception: The STI target for the Chief Executive Officer, Suncorp Business Services is contractually set at 138.3% of fixed remuneration.

Performance objectives and weightings	Balanced scorecard categories
Suncorp Group Group CEO: 90% Senior Executives: 60%	• Profit and financials: deliver targeted underlying profit after tax; improve shareholder returns; transparency of surplus capital and the quality of management recommendations/actions for the deployment of that capital • Risk management: manage risk levels within agreed parameters and maintain the regulator's assessment of the Suncorp Group's risk profile • Customer: improve external confidence in the Suncorp Group and achievement of target customer satisfaction • People: maintain high achievement, an engaged team and meet occupational health and safety targets
Business unit Senior Executives: 30%	• Profit and financials: deliver targeted underlying profit after tax and improve shareholder returns • Risk management: drive a positive risk culture and risk governance framework and manage risk levels within agreed parameters • Customer: achieve customer retention and advocacy; grow customer base • People: maintain a highly engaged team and meet occupational health and safety targets • Key business unit strategic deliverables: implementation of key strategic projects/initiatives to drive business improvements
Individual performance Group CEO: 10% Senior Executives: 10%	Suncorp Group values: • Honesty, trust, courage, caring, fairness and respect

The Board considers underlying profit after tax to be an appropriate reflection of the ongoing profitability of the Suncorp Group. There is genuine scope for individual executive performance to impact underlying profit outcomes, and so the Board considers this to be an effective measure for its STI program.

In determining underlying profit after tax, a number of adjustments to net profit after tax (were made as they are deemed to be outside normal operating activities. These include investment market movements, reserve releases and natural hazards claims above long-run expectations and profit or losses on assets disposed. It excludes the profit or loss of the non-core bank, which is assessed on a return of capital basis. Underlying profit after tax has not been audited by the external auditors.

The Group CEO assesses each Senior Executive's performance at the end of the financial year against Suncorp Group and business unit scorecards, considering actual outcomes relative to the agreed targets. Based on this assessment, the Group CEO makes a recommendation to the Remuneration Committee for Board approval on the amount of STI to award to each Senior Executive.

Information regarding the category weightings for the Suncorp Group and business unit scorecards are shown in section 2.8.

STI is deferred and subject to clawback

For the Group CEO, 50% of STI is deferred as cash while Senior Executives have 35% of STI deferred as cash, subject to clawback.

Interest accrues during the deferral period and is payable on vesting. In the event of resignation, redundancy or retirement, the deferred incentive portion will remain 'on foot' after the termination date until the end of the original deferral period.

During the deferral period, the Board considers the long-term impacts of decisions made and actions taken during the performance year to which the deferred STI applies. In accordance with the risk governance framework, significant adverse outcomes may give grounds for the Board to apply its discretion to adjust the original deferred incentive allocation downwards, including to zero if necessary.

2.6 Short-term incentives – targets designed to stretch (continued)

STI is deferred and subject to clawback (continued)

The Board will consider the following when determining if clawback should apply to the deferred STI:

- significant losses arising as a consequence of poor quality business that has, in the opinion of the Board, been demonstrated to have been generated;
  - in breach of duly adopted policies and procedures
  - as a result of the exercise of bad judgement (either at the time the business was written, or when a deterioration should have been recognised and provided for)
  - in an environment where policies, procedures or protocols were weak or inadequate in each case having regard to the role and responsibility of the individual concerned
- financial misconduct (including embezzlement, fraud or theft)
- actions resulting in Suncorp Group or business unit financial misstatements
- significant legal, regulatory, and/or policy non-compliance
- significant issues that impact the Suncorp Group's standing with regulators to conduct business; and
- any individual act which is deemed to have been significantly harmful to the Suncorp Group, the Suncorp Group's reputation, the Suncorp Group's employees or the Suncorp Group's customers (e.g. ethical misconduct).

In exercising its judgement in relation to the clawback of deferred STI, the Board is informed by recommendations from the Remuneration, Risk and Audit Committees.

Deferral was introduced in 2010 for the Group CEO and extended to Senior Executives in 2011 as part of a suite of changes to the remuneration framework. The substantive changes to remuneration arrangements required a balanced assessment of the STI deferral provision. The program was intended to underscore the adherence to risk appetite and create a link to sustainable performance. Deferral allows the Board to look back and assess if any factors (as outlined above) have arisen that if known when the award was made would have operated to reduce the quantum of awards granted.

The process was intended to be simple, conveying a meaningful value at risk to all participants that would support their active engagement in the prudent stewardship of risk activities.

2.7. Long-term incentives

The purpose of LTI is to focus the Group CEO and Senior Executives on the Suncorp Group's long-term business strategy, align their interests with those of shareholders and support the creation of long-term shareholder value.

LTI, delivered in the form of performance rights, is offered to the Group CEO and Senior Executives as these individuals have a direct impact on the Suncorp Group's long-term performance.

LTI grants are provided through the Executive Performance Share Plan (EPSP). LTI recipients will only derive value from their LTI grants if a challenging TSR performance hurdle relative to the pre-determined group of peer companies (the Peer Comparator Group) is met.

Performance rights explained

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

2.7 Long-term incentives (continued)

The allocation and exercise of performance rights

Eligibility of the individual to participate in the LTI plan determined by the Board.

↓

The face value of LTI to be granted is determined
(based on 50% of the individual's fixed remuneration for Senior Executives).

↓

The number of performance rights granted is determined. The number of performance rights is equivalent to the face value of the LTI divided by the Volume Weighted Average Price (VWAP) of one ordinary share over the five days preceding the date of the grant.

↓

Offers are made to eligible participants in October.

↓

Shares are purchased by the EPSP trustee on market to avoid any dilutionary impact that issuing new ordinary shares would have on the share price.

↓

Shares are held in trust during the vesting period.

↓

After vesting, the shares remain held by the EPSP trustee until the individual applies to the Board to remove the shares or until seven years has passed.

↓

The performance hurdle – Total Shareholder Return
Performance is measured by ranking the Company's TSR against the Peer Comparator Group. TSR (expressed as a percentage) is a method of calculating the return shareholders would earn if they held a notional number of shares over a period of time. TSR measures the percentage change in a company's share price, together with the value of dividends received during the period (assuming that all of those dividends are re-invested into new shares) and capital returns. TSR will vary over time but the relative position reflects the market perception of overall performance relative to the Peer Comparator Group. The ranking of the Company's TSR determines the extent to which performance rights vest.

The Peer Comparator Group chosen for relative TSR performance assessment is the top 50 companies ranked by market capitalisation in the S&P/ASX 100 Index, excluding listed property trusts and mining companies. The Remuneration Committee believes the chosen group is appropriate in the absence of a suitable peer group of direct comparators.

The relative TSR performance measure is chosen on the basis that it:

- offers a relevant indicator of measuring changes in shareholder value by comparing the Company's return to shareholders against the returns of companies of similar size and investment profile
- provides alignment between shareholder returns and reward outcomes for executives; and
- provides a direct link between executive rewards and shareholder return over the long-term and minimises the impact market cycles may have.

The Board has considered adopting other measures to determine the allocation of LTI but has determined that the most appropriate measure is relative TSR.

Total Shareholder Return externally monitored
TSR performance is monitored by an external party.

2.7 Long-term incentives (continued)

Vesting schedule
The extent to which performance rights will vest is subject to the Company's TSR, measured over the relevant period.

The Group CEO and Senior Executives will not derive any value from the LTI component of their remuneration unless the Company's TSR performance is greater than the median performance of the Peer Comparator Group.

Performance rights vest in accordance with the LTI vesting schedule represented in the table below:

Relative TSR performance outcome	Percentage of LTI award that will vest
Below the 50th percentile (below median performance)	0%
At the 50th percentile (median performance)	50%
Between the 50th and 75th percentiles	50% plus 2% for each full 1% increase in the Company's ranking against the Peer Comparator Group
At or above the 75th percentile	100%

Dividends
The EPSP trustee manages any dividends received during the time that the shares underlying the performance rights are held in trust. If a performance right vests and shares are allocated, a payment equal to the dividends earned on those shares during the performance period is paid (less applicable taxes that have been paid by the EPSP trustee with respect to the dividends).

LTI performance period
The performance period begins on the date the award is made and extends for three years (and, for awards made prior to 30 June 2010, an additional two-year retesting period may apply).

The Board determined that from 1 July 2010 onwards there would be no retesting opportunity. Consequently, for grants made after 1 July 2010 (first impacting the October 2010 grant), any performance rights which do not vest at the end of the three-year performance period will lapse.

Group CEO's 2009 LTI grant performance period
On 1 October 2009 the Group CEO received an award of 900,000 performance rights in the Company (Initial Grant) under the EPSP. The Initial Grant included the Group CEO's maximum LTI entitlement for the 2010, 2011 and 2012 financial years.

The Group CEO's performance rights vest in three equal tranches of a maximum of 300,000 shares per tranche subject to the performance conditions outlined above and will be tested over a three to five-year period. The potential vesting dates for the Initial Grant are 30 September 2012, 30 September 2013 and 30 September 2014.

Proposed 2013 LTI grant
It is proposed that a new grant of performance rights in the Company will be made to the Group CEO under the EPSP in October 2012; this will be his maximum LTI entitlement for 2013.

The potential vesting date for the 2013 grant is 30 September 2015. There will be no option to extend the performance period beyond this date.

The Board, on the advice of the Remuneration Committee, endorsed an award of performance rights with a value of $4,000,000. This value takes into account the appropriate level of total remuneration, as assessed by reference to a number of factors, including the extent to which the total remuneration is market competitive. The performance rights will be granted following the 2012 Annual General Meeting (if shareholder approval is provided). The actual number of shares linked to the performance rights to be granted to the Group CEO will depend on the share price over the five trading days up to 1 September 2012. These performance rights will be subject to the performance hurdle and vesting schedule as described earlier.

Future LTI allocations will be determined by the Board annually, and will be subject to shareholder approval.

2.7 Long-term incentives (continued)

Hedging prohibition
The Suncorp Group securities trading policy prohibits directors, employees and contractors from dealing in a financial product which operates to limit the economic risk of a holding in the Company's securities (hedging), including unvested EPSP performance rights.

All KMP are reminded of this policy at least twice per year, usually in the month prior to the release of the Suncorp Group's annual and half-yearly financial results.

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

Once performance rights have fully vested, the underlying shares can be withdrawn from the EPSP by the executive. Any subsequent dealing in those shares is subject to the terms of the Suncorp Group securities trading policy.

2.8. Executive remuneration outcomes for 2012

This section outlines how the 2012 incentive outcomes reflect performance outcomes.

The Suncorp Group's strategy of 'One Company. Many Brands.' is supported by a leadership model designed to align the organisation with clear and common strategic priorities and support the critical behaviours required to deliver incremental value. The reward framework reflects the alignment by placing a significant weighting in the scorecards on the overall Suncorp Group performance. The emphasis on the overall performance outcomes intentionally limits the scope for differentiation of STI outcomes between the Senior Executives. Any differentiation is achieved through the assessment of business unit performance and individual behaviours that in 2012 amounted to 40% of the relevant Senior Executive's scorecard.

Suncorp Group performance and STI 2012 outcomes
In association with the principle of 'aligning sustainable performance with reward', stretch targets for the Group CEO and Senior Executives are based on the expectation of delivering continuous improvements in relation to external and internal benchmark indicators. Performance outcomes are measured based on a challenging, robust assessment of achievements against stretch targets. In 2012 the Suncorp Group has not achieved target financial performance and the value of STI to be delivered has therefore been appropriately adjusted, to reflect the level of performance achieved.

STI performance outcomes for the Group CEO in 2012

The table below outlines the 2012 performance against target for the Group CEO's scorecard areas.

PERFORMANCE OUTCOMES						REMUNERATION OUTCOMES
PROFIT AND FINANCIALS 60%	PEOPLE 10%	RISK 10%	CUSTOMERS/ STAKEHOLDERS 10%	BEHAVIOURS 10%	OVERALL PERFORMANCE OUTCOME	OVERALL STI OUTCOME
Below target	Below target	At target	Above target	At target	Below target	Below target

Actual STI outcome for 2012 is represented in the table below for the Group CEO.

		ACTUAL STI AWARDED $'000 [1]	TARGET STI $'000 [2]	STI AWARD AS % OF TARGET STI	MAX STI $'000 [3]	STI AWARD AS % OF MAXIMUM STI	% OF MAXIMUM STI AWARD FORFEITED	AMOUNT DEFERRED $'000
Executive director								
Group CEO	Patrick Snowball	2,950	3,188	93	3,825	77	23	1,475

1. The value of STI awarded for 2012 represented is before any deferral.
2. Target STI is set at 125% of fixed remuneration.
3. Maximum STI is set at 150% of fixed remuneration.

2.8 Executive remuneration outcomes for 2012 (continued)

Suncorp Group performance and STI 2012 outcomes (continued)

STI performance outcomes for Senior Executives in 2012

STI awards for Senior Executives are in part determined using the Suncorp Group performance measures. Sixty percent of the award relates to the Suncorp Group performance.

The Suncorp Group performance outcomes are included in each business unit scorecard that include specific business unit and individual performance measures.

The similarity in STI outcomes versus target, between the Senior Executives is reflective of the significant weighting in the STI scorecards on Group performance, reflecting the Suncorp Group's strategy of 'One Company. Many Brands.'.

Actual STI outcomes for 2012 are represented in the table below for Senior Executives.

		ACTUAL STI AWARDED $'000 [1]	TARGET STI $'000 [2]	STI AWARD AS % OF TARGET STI	MAX STI $'000 [3]	STI AWARD AS % OF MAXIMUM STI	% OF MAXIMUM STI AWARD FORFEITED	AMOUNT DEFERRED $'000
Senior Executives								
CEO Commercial Insurance	Anthony Day	845	938	90	1,406	60	40	296
CEO Vero New Zealand	Gary Dransfield	600	688	87	1,031	58	42	210
CEO Suncorp Bank	David Foster	850	963	88	1,444	59	41	298
CEO Personal Insurance	Mark Milliner	885	1,009	88	1,513	58	42	310
Group Chief Financial Officer	John Nesbitt	980	1,125	87	1,688	58	42	343
Group Executive Human Resources	Amanda Revis	660	750	88	1,125	59	41	231
CEO Suncorp Business Services	Jeff Smith	960	1,079	89	1,463	66	34	336
Group Chief Risk Officer	Robert Stribling [4]	695	788	88	1,181	59	41	243
CEO Suncorp Life	Geoff Summerhayes	810	900	90	1,350	60	40	284

1. The value of STI awarded for 2012 represented is before any deferral.
2. Target STI is set at 125% of fixed remuneration for all Senior Executives excluding the Chief Executive Officer, Suncorp Business Services who has a target STI contractually set at 138.3%.
3. Maximum STI for Senior Executives is set at 187.5% of fixed remuneration.
4. Actual STI for Mr Stribling excludes the retention incentive (see section 2.10).

2.8 Executive remuneration outcomes for 2012 (continued)

Suncorp Group performance and LTI 2012 outcomes

Suncorp Group performance

The table below includes the Suncorp Group's[1] performance over the five financial years to 30 June 2012. It provides an overall view of the Suncorp Group's performance (note the TSR in the table does not relate to the Suncorp Group's LTI plan which is dependent on relative TSR performance against a peer group of ASX-listed companies).

YEAR ENDED 30 JUNE	PROFIT FOR THE YEAR $m	CLOSING SHARE PRICE[2] $	DIVIDEND P/SHARE cents	TSR[3] %
2012	728	8.09	55	55
2011	457	8.14	35	63
2010	789	8.04	35	60
2009	353	6.70	40	48
2008	588	13.04	107	82

1. The Suncorp Group completed a restructure on 7 January 2011 (implementation of the NOHC). Amounts prior to this restructure relate to Suncorp-Metway Limited, the ultimate parent company prior to the restructure.
2. Closing share price at 30 June.
3. TSR is based on the closing share price as at 30 June of the relevant year, relative to the share price at the commencement of the period five years prior. For example: The year ended 30 June 2012 the period commenced 1 July 2007. To have achieved a value of 125 at 30 June 2012, this means an initial capital investment of $100 in the Company's shares on 1 July 2007, together with reinvested dividends over the ensuing five year period, would be worth $125 at 30 June 2012.

LTI performance outcomes – current year outcomes

As outlined in section 2.7, the LTI vesting is based on relative TSR performance against the Peer Comparator Group.

In 2012 the LTI performance hurdle was not met in relation to the 2006 Grant (final vesting) and 2008 Grant (initial vesting) and the Senior Executives derived no value in 2012 in relation to these LTI awards. The 2007 and 2009 Grants are due to be tested at 30 September 2012.

The table below outlines the vesting outcome for awards tested in 2012.

FINANCIAL YEAR	GRANT MADE	START OF THE PERFORMANCE PERIOD	PERFORMANCE PERIOD	AWARDS TESTED IN 2012	
				TSR OUTCOME	VESTING OUTCOME
2006 Grant	1 October 2006	1 October 2006	Extended five-year period to 30 September 2011	Suncorp Group ranked at the 10th percentile	0%
2008 Grant	1 October 2008	1 October 2008	Initial three-year period to 30 September 2011	Suncorp Group ranked at the 24th percentile	0%

2.8 Executive remuneration outcomes for 2012 (continued)

Suncorp Group performance and LTI 2012 outcomes (continued)

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

Information with respect to the movement of performance rights during 2012 and of current LTI grants held by the Group CEO and Senior Executives as at 30 June 2012 are outlined in the table below.

	PERFORMANCE RIGHTS GRANTED			FAIR VALUE YET TO VEST		MARKET VALUE			
	NUMBER OF ORDINARY SHARES	GRANT DATE	FINANCIAL YEAR IN WHICH GRANT MAY FIRST VEST	MIN [1] $	MAX [2] $	AT DATE OF GRANT [3] $	AS AT 30 JUNE 2012 [4] $	VESTED IN YEAR %	FORFEITED IN YEAR %
Executive director									
Patrick Snowball	300,000	1 October 2009	30 June 2013	-	1,902,000	2,646,000	2,427,000	-	-
	300,000	1 October 2009	30 June 2014	-	1,968,000	2,646,000	2,427,000	-	-
	300,000	1 October 2009	30 June 2015	-	2,025,000	2,646,000	2,427,000	-	-
Senior Executives									
Anthony Day	9,543	1 October 2007	30 June 2011 [5]	-	139,328	194,200	77,203	-	-
	13,843	1 October 2008	30 June 2012 [5]	-	59,802	133,031	111,990	-	-
	17,092	1 October 2009	30 June 2013	-	108,363	150,751	138,274	-	-
	71,585	1 October 2010	30 June 2014	-	380,116	627,800	579,123	-	-
	47,161	1 October 2011	30 June 2015	-	248,538	376,345	381,532	-	-
Gary Dransfield	20,136	1 October 2009	30 June 2013	-	127,662	177,600	162,900	-	-
	18,942	1 October 2010	30 June 2014	-	100,582	166,121	153,241	-	-
	31,441	1 October 2011	30 June 2015	-	165,694	250,899	254,358	-	-
David Foster	23,120	1 October 2006	30 June 2010 [5]	-	-	-	-	-	100%
	763	17 April 2007	30 June 2010 [5]	-	-	-	-	-	100%
	32,740	1 October 2007	30 June 2011 [5]	-	478,004	666,259	264,867	-	-
	64,272	1 October 2008	30 June 2012 [5]	-	277,655	617,654	519,960	-	-
	81,949	1 October 2009	30 June 2013	-	519,557	722,790	662,967	-	-
	77,092	1 October 2010	30 June 2014	-	409,359	676,097	623,674	-	-
	47,161	1 October 2011	30 June 2015	-	248,538	376,345	381,532	-	-
Mark Milliner	20,808	1 October 2006	30 June 2010 [5]	-	-	-	-	-	100%
	686	17 April 2007	30 June 2010 [5]	-	-	-	-	-	100%
	35,259	1 October 2007	30 June 2011 [5]	-	514,781	717,521	285,245	-	-
	69,216	1 October 2008	30 June 2012 [5]	-	299,013	665,166	559,957	-	-
	81,949	1 October 2009	30 June 2013	-	519,557	722,790	662,967	-	-
	82,599	1 October 2010	30 June 2014	-	438,601	724,393	668,226	-	-
	49,047	1 October 2011	30 June 2015	-	258,478	391,395	396,790	-	-
John Nesbitt	313,016	3 May 2010	30 June 2013	-	1,859,315	2,851,576	2,532,299	-	-
	88,105	1 October 2010	30 June 2014	-	467,838	772,681	712,769	-	-
	52,317	1 October 2011	30 June 2015	-	275,711	417,490	423,245	-	-
Amanda Revis	58,920	1 October 2010	30 June 2014	-	312,865	516,728	476,663	-	-
	33,641	1 October 2011	30 June 2015	-	177,288	268,455	272,156	-	-
Jeff Smith	37,777	1 October 2007	30 June 2011 [5]	-	551,544	768,762	305,616	-	-
	74,160	1 October 2008	30 June 2012 [5]	-	320,371	712,678	599,954	-	-
	87,803	1 October 2009	30 June 2013	-	556,671	774,422	710,326	-	-
	82,599	1 October 2010	30 June 2014	-	438,601	724,393	668,226	-	-
	49,047	1 October 2011	30 June 2015	-	258,478	391,395	396,790	-	-
Robert Stribling	66,079	1 October 2010	30 June 2014	-	278,193	579,513	534,579	-	-
	37,729	1 October 2011	30 June 2015	-	193,550	301,077	305,228	-	-
Geoff Summerhayes	61,800	1 October 2008	30 June 2012 [5]	-	266,976	593,898	499,962	-	-
	73,169	1 October 2009	30 June 2013	-	463,891	645,351	591,937	-	-
	68,832	1 October 2010	30 June 2014	-	365,498	603,657	556,851	-	-
	43,262	1 October 2011	30 June 2015	-	227,991	345,231	349,990	-	-

1 The minimum value of shares yet to vest is nil as the performance criteria or service condition may not be met and consequently the shares may not vest.
2 For equity-settled performance rights, the maximum value yet to vest is determined as the fair value at grant date, assuming all performance criteria are met. For cash-settled performance rights, the maximum value of shares yet to vest is determined as the fair value at 30 June 2012, assuming all performance criteria are met.
3 Market value at date of grant is calculated by the number of shares granted multiplied by the closing share price as traded on the Australian Securities Exchange (ASX) on the date of grant. Where the date of grant falls on an ASX non-trading day, the closing share price of the preceding trading day is used.
4 Market value as at 30 June 2012 is calculated by the number of shares granted multiplied by the closing share price as traded on ASX on 30 June 2012.
5 Executives elected to extend the performance period by a further two years.

2.9. Executive remuneration disclosures

This section provides full details of total remuneration for the Group CEO and Senior Executives for 2012 and 2011, as required under the provisions of the *Corporations Act 2001*.

The following table includes LTI amounts which did not deliver value during 2012 and 2011 to the Senior Executives. The 'share-based payment' amount reflects the amount required to be expensed in accordance with AASBs. The fair value of equity-settled performance rights is determined at grant date and amortised over the vesting period. The fair value of cash-settled performance rights is remeasured at year end, with changes in fair value recognised as an expense. The values realised in subsequent years may differ to the accounting expense reported below, depending on the extent to which the performance hurdles are met.

Executive remuneration for the years ended 30 June 2012 and 30 June 2011

	SHORT-TERM BENEFITS				POST-EMPLOY-MENT BENEFITS	LONG-TERM BENEFITS					
	SALARY AND FEES $'000	CASH INCENTIVES $'000	NON-MONETARY BENEFITS [1] $'000	OTHER [2] $'000	SUPER-ANNUATION BENEFITS $'000	DEFERRED INCENTIVES [3] $'000	OTHER [4] $'000	TERMI-NATION BENEFITS [5] $'000	SHARE-BASED PAYMENTS [6] $'000	TOTAL REMUN-ERATION $'000	PERFOR-MANCE RELATED %
Executive director											
Patrick Snowball											
2012	**2,500**	**1,475**	**84**	**(13)**	**-**	**2,688**	**-**	**-**	**1,531**	**8,265**	**68.9**
2011	2,183	990	43	153	9	607	-	-	1,531	5,516	56.7
Senior Executives											
Anthony Day											
2012	**737**	**549**	**5**	**20**	**16**	**307**	**-**	**-**	**258**	**1,892**	**58.9**
2011	656	455	2	11	16	245	-	-	179	1,564	56.2
Gary Dransfield											
2012	**520**	**390**	**5**	**11**	**16**	**213**	**-**	**-**	**118**	**1,273**	**56.6**
2011 [7]	62	39	1	8	-	21	-	-	8	139	48.9
David Foster											
2012	**752**	**553**	**3**	**(19)**	**16**	**310**	**15**	**-**	**491**	**2,121**	**63.8**
2011	716	504	1	25	25	271	18	-	464	2,024	61.2
Mark Milliner											
2012	**787**	**575**	**5**	**38**	**16**	**324**	**20**	**-**	**512**	**2,277**	**62.0**
2011	760	556	2	(17)	16	299	21	-	485	2,122	63.1
John Nesbitt											
2012	**869**	**637**	**8**	**(28)**	**16**	**358**	**-**	**-**	**845**	**2,705**	**68.0**
2011	812	611	3	20	19	329	-	-	737	2,531	66.3
Amanda Revis											
2012	**569**	**429**	**5**	**(20)**	**16**	**241**	**-**	**-**	**149**	**1,389**	**59.0**
2011 [8]	458	387	2	20	15	208	-	-	78	1,168	57.6
Jeff Smith											
2012	**768**	**624**	**6**	**25**	**16**	**352**	**71**	**-**	**533**	**2,395**	**63.0**
2011	750	614	3	46	26	331	-	-	512	2,282	63.9
Robert Stribling (retired 30 June 2012)											
2012	**608**	**647**	**9**	**(17)**	**16**	**359**	**-**	**-**	**406**	**2,028**	**69.6**
2011	552	436	3	3	50	235	-	-	65	1,344	54.7
Geoff Summerhayes											
2012	**698**	**527**	**9**	**(8)**	**16**	**295**	**-**	**-**	**356**	**1,893**	**62.2**
2011	624	455	3	(1)	51	245	-	-	335	1,712	60.5

1 Non-monetary benefits represents costs met by the Suncorp Group for airfares and insurances.
2 Other short-term benefits represent annual leave accrued during the year.
3 The amount of deferred incentives awarded to the Group CEO and Senior Executives are recognised in full as there are no performance or service conditions required. The deferred incentive remuneration for Mr Snowball in 2012 includes the accelerated amortisation for the 2010 and 2011 deferred STI. The amortisation has been accelerated as the new contract entered into by Mr Snowball in August 2011 contains amended service conditions regarding the 2010 and 2011 deferred STI.
4 Other long-term benefits represent long service leave accrued during the year.
5 Termination benefits are paid in accordance with contractual commitments. Refer to Section 2.10.
6 Equity-settled performance rights issued as LTI are expensed to the profit or loss based on their fair value at grant date over the period from grant date to vesting date. For cash-settled performance rights, the fair value is remeasured at year end with changes in fair value recognised as an expense. The fair value is assessed using a Monte-Carlo model and reflects the fact that an individual's entitlement to the shares is dependent on relative TSR performance. The assumptions underpinning these valuations are set out in note 12 to the financial statements. Mr Stribling is the only KMP with cash-settled LTI.
7 Mr Dransfield became a Senior Executive on 23 May 2011. Remuneration disclosed for 2011 relates only to his period in office.
8 Ms Revis became a Senior Executive on 16 August 2010. Remuneration disclosed for 2011 relates only to her period in office.

2.10. Contractual arrangements

Group CEO

Mr Snowball is employed by Suncorp Staff Pty Limited, a wholly-owned subsidiary of the Company. Mr Snowball entered into a new contract with the Suncorp Group in August 2011. The key terms of this contract are outlined below.

		Before 1 September 2011	From 1 September 2011
Fixed remuneration		$2,200,000	$2,550,000
Short-term incentive (STI)	Target	100% of fixed remuneration	125% of fixed remuneration
	Maximum	150% of fixed remuneration	150% of fixed remuneration
	Deferral	50% of total STI awarded	50% of total STI awarded
Long-term incentive (LTI)		900,000 performance rights over three years Initial Grant of 300,000 performance rights in October 2009; performance to be tested 30 September 2012[1]	Proposed annual award of performance rights equivalent to $4,000,000 maximum value, subject to performance against hurdle over a three-year vesting period. New award to be granted after the Annual General Meeting (pending shareholder approval) based on volume weighted average share price in the 5 trading days before 1 September 2012. [1] LTI awards for future years will be determined by the Board annually, and will be subject to shareholder approval.

1. See section 2.7 for details on the Group CEO's current LTI arrangements and proposed LTI grant

Notice periods

Employer-initiated termination	
In cases other than misconduct or other circumstances justifying summary dismissal	12 months
Where individual becomes incapacitated, is of unsound mind or health deteriorates to a certain degree	9 months
For poor performance	3 months
Misconduct or other circumstances justifying summary dismissal	None
Employee-initiated termination	6 months

When notice is required, the Suncorp Group may make a payment equal to a proportion of fixed remuneration which corresponds to the period for which notice is not given (subject to the Suncorp Group not being prohibited by law from making such a payment).

Treatment of STI on termination

Employer-initiated termination	
In cases other than misconduct or other circumstances justifying summary dismissal	The Board has the discretion to determine: • that any cash STI may be received, subject to performance. • that any deferred STI award will vest after the termination date at the end of the original deferral period and will be subject to potential clawback at such time, unless the Board exercises its discretion otherwise.
Where individual becomes incapacitated, is of unsound mind or health deteriorates to a certain degree	
For poor performance	Deferred STI award forfeited.
Misconduct or other circumstances justifying summary dismissal	
Employee-initiated termination	The Board has the discretion to determine: • that any cash STI may be received, subject to performance. • that any deferred STI award will generally vest after the termination date at the end of the original deferral period and will be subject to potential clawback at such time, unless the Board exercises its discretion otherwise.

The treatment of STI in the event of employee-initiated termination stated in the above table was changed as part of Mr Snowball's new contract. Previous contractual arrangements required the forfeiture of STI under such circumstances. Where a change of control occurs, subject to the satisfaction of applicable performance measures, deferred STI and a pro-rata award of current year STI may be awarded.

2.10 Contractual arrangements (continued)

Group CEO (continued)

Treatment of LTI on termination

Employer-initiated termination	
In cases other than misconduct or other circumstances justifying summary dismissal	The Board has the discretion to determine that any unvested LTI performance rights under the Initial Grant will continue until the relevant vesting dates, subject to the performance measures[1].
Where individual becomes incapacitated, is of unsound mind or health deteriorates to a certain degree	
For poor performance	Unvested awards under the Initial Grant forfeited.
Misconduct or other circumstances justifying summary dismissal	
Employee-initiated termination	Unvested awards will be forfeited if Mr Snowball terminates the agreement on six months' notice prior to 31 August 2014[2].

1. In the case of the Initial Grant of performance rights, the number of performance rights that will continue to be available will depend on when the termination of employment occurs: after one year of service 300,000 will be available, after two years' service 600,000 will be available and after three years' service 900,000 will be available.
2. Applicable to the Initial Grant only.

Where a change of control occurs, subject to the satisfaction of applicable performance measures, unvested LTI may vest pro-rata.

Senior Executives

Senior Executives are employed by Suncorp Staff Pty Limited, a wholly-owned subsidiary of the Company, under a standard employment contract with no fixed term (with the exception of Mr Stribling – see below for details).

Notice periods

Employer-initiated termination	
Misconduct or other circumstances justifying summary dismissal	None
All other cases excluding the above	12 months[1]
Employee-initiated termination	3 months
Redundancy remuneration (including notice)	12 months[2]

1. Exception: Mr Stribling: 3 months
2. Exceptions: Mr Summerhayes: Greater of 12 months or total benefit under the redundancy policy (maximum of 75 weeks including notice). Mr Stribling: None except if required by statute.

The contracts may be terminated at any time provided that the notice period is given. The Suncorp Group may make a payment in lieu of notice of all or part of any notice period, calculated based on an individual's fixed remuneration less superannuation contributions (subject to the Suncorp Group not being prohibited by law from making such a payment). Payment on termination will include payment of accrued annual leave and, where appropriate, long service leave.

Treatment of STI on termination

Misconduct or other circumstances justifying summary dismissal	No cash STI will be awarded and all unvested deferral is forfeited.
Resignation, redundancy or retirement	The Board has the discretion to determine: • any cash STI award may be received, subject to performance. • that any deferred STI award will generally vest after the termination date at the end of the original deferral period and will be subject to potential clawback at such time, unless the Board exercises its discretion otherwise.
All other cases excluding the above	Board discretion

2.10 Contractual arrangements (continued)

Senior Executives (continued)

Treatment of LTI on termination

Qualifying reason[1]	The Board has the discretion to determine that any unvested LTI performance rights will continue until the relevant vesting dates and remain subject to the performance measures, except that any allocation made will be pro-rated to reflect the proportion of the performance period actually worked, unless otherwise determined by the Board.
Non-qualifying reason	Unvested awards are forfeited.

1. Death, total and permanent disablement, retirement, redundancy as a result of a restructure within the Suncorp Group, or another reason as determined by the Board.

Where a change of control occurs, subject to the satisfaction of applicable performance measures, unvested LTI may vest pro-rata, subject to performance.

Retention incentive payment – Robert Stribling

Mr Stribling's two-year fixed term contract ended on 4 January 2012. Mr Stribling entered into a new contract with the Suncorp Group effective 5 January 2012. The contract expired on 30 June 2012.

As the Board requested that Mr Stribling stay with Suncorp for an additional six months, his new contract provided for a retention incentive payment of $300,000 to be awarded on completion of the contract, subject to an assessment of performance during the period from 5 January to 30 June 2012 by the Group CEO. This was awarded in full, with 65% paid in cash and 35% deferred (refer to section 2.6). If Mr Stribling's employment had terminated prior to 30 June 2012 for any reason other than retrenchment, no partial or pro-rata payment would have been made.

3. Non-executive director arrangements – audited

3.1. Remuneration structure

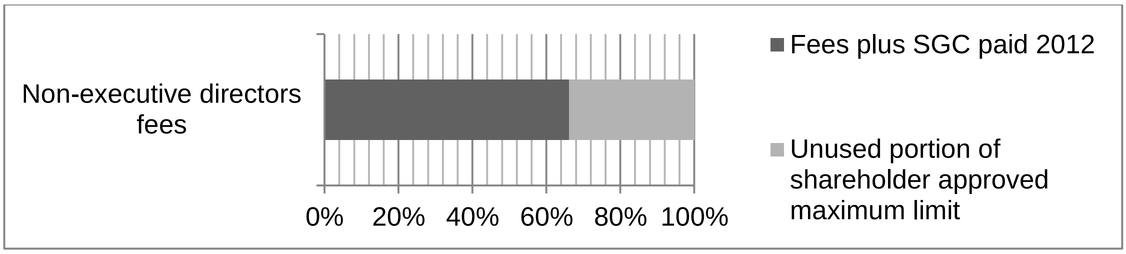
Remuneration policy

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

Fee structure

Shareholders have approved a maximum aggregate total remuneration limit of $3,500,000 for all non-executive directors. The superannuation guarantee contribution (SGC) payments for non-executive directors are included in the limit but retirement benefits are excluded. The Suncorp Group pays the SGC on behalf of all eligible non-executive directors. If a non-executive director ceases to be eligible for SGC payments, the equivalent amount is paid in fees.

Non-executive directors receive fixed remuneration only, paid as directors' fees and do not participate in performance-based incentive plans.



The approved non-executive director fee structure for 2012 and 2013 is set out in the table below.

ROLE	2012 AND 2013 FEE P.A.[1] $'000
Chairman	570
Non-executive director base fee	207
Additional fee for Audit Committee Chairman	50
Additional fee for Audit Committee member	25
Additional fee for Risk Committee Chairman	50
Additional fee for Risk Committee member	25
Additional fee for Remuneration Committee Chairman	40
Additional fee for Remuneration Committee member	20
Additional fee for Chairmanship of New Zealand company boards	50
Additional fee for Chairmanship of New Zealand Joint Venture	50

1. Fees exclude SGC.

3.2. Non-Executive Directors' Share Plan (NEDSP)

The NEDSP, established in November 2001 following shareholder approval, facilitates the purchase of shares by non-executive directors by nominating, on a voluntary basis, a percentage of their pre-tax remuneration to be used to purchase the Company's shares on market at pre-determined dates. The purpose of the NEDSP is to provide Suncorp Group equity exposure for non-executive directors.

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

3.3. Non-executive directors' retirement benefits

Prior to 2004, shareholders had approved a non-executive directors' retirement plan (Plan) which entitled non-executive directors to be paid a retirement benefit based on the highest total emoluments paid to a non-executive director during any consecutive three-year period.

In 2004, the Suncorp Group began to phase out retirement benefit arrangements in the following manner:

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

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

The remaining Participating Director in office during the financial year retired in October 2011. The amount of retirement benefits paid to the Participating Director under the terms of the Plan are included in the table in section 3.4.

3.4 Non-executive directors remuneration disclosures

Details of non-executive directors' remuneration for 2012 and 2011 are set out in the table below.

	SHORT-TERM BENEFITS		POST-EMPLOYMENT BENEFITS		
	SALARY AND FEES $'000	NON-MONETARY BENEFITS [1] $'000	SUPERANNUATION BENEFITS $'000	RETIREMENT BENEFITS[2] $'000	TOTAL[3] $'000
Non-executive directors in office as at 30 June 2012					
Dr Zygmunt Switkowski (Chairman from 27 October 2011)					
2012	500	1	16	-	517
2011	250	1	22	-	273
Ilana Atlas					
2012	266	1	24	-	291
2011	125	-	11	-	136
William Bartlett					
2012	275	1	25	-	301
2011	244	1	22	-	267
Michael Cameron (appointed 16 April 2012)					
2012	44	-	4	-	48
2011	-	-	-	-	-
Audette Exel (appointed 27 June 2012)					
2012	2	-	-	-	2
2011	-	-	-	-	-
Ewoud Kulk					
2012	311	1	45	-	357
2011	261	1	45	-	307
Dr Douglas McTaggart (appointed 16 April 2012)					
2012	46	-	4	-	50
2011	-	-	-	-	-
Geoffrey Ricketts					
2012	274	1	25	-	300
2011	250	1	22	-	273
Non-executive directors retired/resigned during 2012					
John Story (Chairman until retirement on 27 October 2011)					
2012	184	-	17	241	442
2011	550	1	50	-	601
Paula Dwyer (resigned 28 February 2012)[4]					
2012	195	-	12	-	207
2011	263	1	15	-	279
Stuart Grimshaw (resigned 23 August 2011)					
2012	43	-	4	-	47
2011	245	1	22	-	268

1 The non-executive directors receive a non-monetary benefit in relation to a proportion of the directors' and officers' insurance policy premium pro-rated for time in office. The amounts for both the current and prior year are below $1,000 per individual.
2 Represents the value of retirement benefit payments in 2012. There are no further retirement benefits payable to non-executive directors.
3 None of the remuneration paid to non-executive directors is performance-based, refer to section 3.1.
4 Ms Dwyer received an additional payment of $20,000 in 2012 in relation to services provided to an ad hoc committee.

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

Dr Zygmunt E Switkowski
Chairman

Patrick J R Snowball
Managing Director and Group CEO

22 August 2012

KPMG

Lead auditor's independence declaration under Section 307C of the *Corporations Act 2001* to the directors of Suncorp Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

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

KPMG

Paul Reid
Partner

Brisbane
22 August 2012

Suncorp Group Limited and subsidiaries

ABN 66 145 290 124

Consolidated financial report

for the financial year ended 30 June 2012

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Consolidated statement of comprehensive income

for the financial year ended 30 June 2012

CONSOLIDATED	Note	2012	2011
		$m	$m
Revenue			
Insurance premium income		**8,355**	7,874
Reinsurance and other recoveries income		**1,917**	4,786
Banking interest income		**4,025**	4,401
Investment revenue	9.1	**1,183**	1,358
Other income	9.2	**554**	614
Total revenue		**16,034**	19,033
Expenses			
General Insurance claims expense		**(7,122)**	(9,331)
Life insurance claims expense and movement in policyowner liabilities		**(314)**	(862)
Outwards reinsurance premium expense		**(946)**	(1,001)
Interest expense		**(3,146)**	(3,532)
Fees and commissions expense		**(535)**	(485)
Operating expenses	10	**(2,601)**	(2,654)
Impairment expense on Banking loans, advances and other receivables	7.5.2	**(405)**	(325)
Loss on sale of subsidiaries		**-**	(109)
Outside beneficial interests in managed funds		**(2)**	(32)
Total expenses		**(15,071)**	(18,331)
Profit before income tax		**963**	702
Income tax expense	11.1	**(235)**	(245)
Profit for the financial year		**728**	457
Other comprehensive income			
Net change in fair value of cash flow hedges	22	**(66)**	60
Net change in fair value of available-for-sale financial assets	22	**(60)**	31
Exchange differences on translation of foreign operations	22	**10**	(39)
Actuarial (losses) on defined benefit plans	13.3	**(51)**	(11)
Income tax benefit (expense) on other comprehensive income	11.3.2	**53**	(21)
Other comprehensive income net of income tax		**(114)**	20
Total comprehensive income for the financial year		**614**	477
Profit for the financial year attributable to:			
Owners of the Company		**724**	453
Non-controlling interests		**4**	4
Profit for the financial year		**728**	457
Total comprehensive income for the financial year attributable to:			
Owners of the Company		**610**	473
Non-controlling interests		**4**	4
Total comprehensive income for the financial year		**614**	477
		Cents	Cents
Earnings per share:			
Basic earnings per share	3	**56.68**	35.56
Diluted earnings per share	3	**55.74**	35.56

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

Consolidated statement of financial position

as at 30 June 2012

CONSOLIDATED	Note	2012	2011
		$m	$m
Assets			
Cash and cash equivalents		**866**	1,271
Receivables due from other banks		**154**	226
Trading securities	7.2	**4,787**	4,952
Derivatives	14	**393**	166
Investment securities	15.2	**24,881**	24,014
Banking loans, advances and other receivables	7.4	**49,180**	48,639
General Insurance assets	6.5	**7,688**	8,054
Life assets	8.5	**721**	671
Property, plant and equipment	16	**216**	351
Deferred tax assets	11.3.1	**181**	148
Other assets	17	**731**	686
Goodwill and intangible assets	18	**6,264**	6,310
Total assets		**96,062**	95,488
Liabilities			
Deposits and short-term borrowings	7.6	**40,708**	38,858
Derivatives	14	**2,406**	2,580
Payables due to other banks		**41**	31
Payables and other liabilities	19	**2,602**	2,224
Current tax liabilities	11.2	**51**	145
General Insurance liabilities	6.6	**14,835**	14,831
Life liabilities	8.6	**5,786**	6,183
Managed funds units on issue		**1**	701
Securitisation liabilities	7.7	**3,800**	3,532
Debt issues	7.8	**9,569**	10,031
Subordinated notes	20	**1,374**	1,524
Preference shares	7.10	**762**	830
Total liabilities		**81,935**	81,470
Net assets		**14,127**	14,018
Equity			
Share capital	21	**12,672**	12,662
Reserves	22	**(55)**	33
Retained profits		**1,493**	1,306
Total equity attributable to owners of the Company		**14,110**	14,001
Non-controlling interests		**17**	17
Total equity		**14,127**	14,018

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

Consolidated statement of changes in equity

for the year financial ended 30 June 2012

CONSOLIDATED	Note	Equity attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital $m	Reserves $m	Retained profits $m	Total $m	$m	$m
Balance as at 1 July 2010		12,618	74	1,241	13,933	20	13,953
Profit for the financial year		-	-	453	453	4	457
Total other comprehensive income		-	28	(8)	20	-	20
Total comprehensive income		-	28	445	473	4	477
Transactions with owners, recorded directly in equity							
Issue of ordinary shares	21	42	-	-	42	-	42
Dividends paid	4	-	-	(444)	(444)	(4)	(448)
Share-based payments	21	11	-	-	11	-	11
Treasury share movements	21	(9)	-	-	(9)	-	(9)
Transfers		-	(69)	69	-	-	-
Other movements		-	-	(5)	(5)	(3)	(8)
Balance as at 30 June 2011		**12,662**	**33**	**1,306**	**14,001**	**17**	**14,018**
Profit for the financial year		**-**	**-**	**724**	**724**	**4**	**728**
Total other comprehensive income		**-**	**(78)**	**(36)**	**(114)**	**-**	**(114)**
Total comprehensive income		**-**	**(78)**	**688**	**610**	**4**	**614**
Transactions with owners, recorded directly in equity							
Dividends paid	4	**-**	**-**	**(511)**	**(511)**	**(4)**	**(515)**
Share-based payments	21	**11**	**-**	**-**	**11**	**-**	**11**
Treasury share movements	21	**(1)**	**-**	**-**	**(1)**	**-**	**(1)**
Transfers		**-**	**(10)**	**10**	**-**	**-**	**-**
Balance as at 30 June 2012		**12,672**	**(55)**	**1,493**	**14,110**	**17**	**14,127**

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

Consolidated statement of cash flows

for the financial year ended 30 June 2012

CONSOLIDATED	Note	2012 $m	2011 $m
Cash flows from operating activities			
Premiums received		**9,217**	8,672
Claims paid		**(8,735)**	(7,680)
Interest received		**4,810**	5,246
Interest paid		**(3,146)**	(3,483)
Reinsurance and other recoveries received		**2,994**	2,128
Outwards reinsurance premiums paid		**(1,024)**	(1,082)
Other operating income received		**637**	969
Dividends received		**98**	66
Operating expenses paid		**(3,430)**	(3,832)
Income tax paid		**(311)**	(176)
Net decrease (increase) in operating assets			
Trading securities		**216**	3,278
Banking loans, advances and other receivables		**(896)**	2,188
Net increase in operating liabilities			
Deposits and short-term borrowings		**1,850**	4,760
Net cash from operating activities	24.1	**2,280**	11,054
Cash flows (used in) investing activities			
Proceeds from sale of investment securities		**39,683**	25,555
Payments for purchase of investment securities		**(40,273)**	(28,219)
Proceeds from disposal of property, plant and equipment and intangible software		**103**	-
Proceeds from other investing activities		**-**	102
Payments for other investing activities		**(180)**	(164)
Net cash (used in) investing activities		**(667)**	(2,726)
Cash flows (used in) financing activities			
Net (decrease) in borrowings		**(1,330)**	(6,945)
Payment on call of subordinated notes		**(174)**	(524)
Dividends paid on ordinary shares		**(511)**	(403)
Payments for reset preference share redemption		**(72)**	(42)
Payments for other financing activities		**(14)**	(19)
Net cash (used in) financing activities		**(2,101)**	(7,933)
Net (decrease) increase in cash and cash equivalents		**(488)**	395
Cash and cash equivalents at the beginning of the financial year		**1,466**	1,087
Cash balances disposed during the financial year	29.1.2	**-**	(16)
Effect of exchange rate fluctuations on cash held		**1**	-
Cash and cash equivalents at the end of the financial year	24.2	**979**	1,466

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

1. Suncorp Group restructure

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

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

The Company's consolidated financial statements for the year ended 30 June 2011 are presented as a continuation of the consolidated SML financial statements.

2. Basis of preparation

The Company is a public company domiciled in Australia. Its registered office is at Level 18, 36 Wickham Terrace, Brisbane, QLD 4000.

The consolidated financial statements for the financial year ended 30 June 2012 comprise the Company and its subsidiaries and were authorised for issue by the Board of Directors on 22 August 2012.

Suncorp Group is a for-profit entity and its consolidated financial statements have been prepared on the historical cost basis unless the application of fair value measurements are required by relevant accounting standards. An exception exists regarding the measurement of defined benefit superannuation scheme surplus (deficit) which is described in note 34.1.19.

Significant accounting policies applied in the preparation of these consolidated financial statements are set out in note 34. There have been no changes to the recognition and measurement accounting policies during the year.

The Suncorp Group's risk management objectives and structure including the management of exposures arising from financial instruments are detailed in note 35.

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

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

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

2.1. Statement of compliance

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

2.2. Use of estimates and judgements

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

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

- General Insurance – liability adequacy test (refer note 6.6.1(b))
- General Insurance – outstanding claims liabilities, assets arising from reinsurance contracts and other recoveries (refer note 6.6.2(c))
- Banking – specific and collective provisions for impairment (refer note 34.1.16(a))
- Life – net policy liabilities (refer note 8.7)
- impairment of goodwill and other intangible assets (refer note 18.1); and
- valuation of financial instruments and fair value hierarchy disclosures (refer note 25).

3. Earnings per share (EPS)

CONSOLIDATED	2012	2011
	$m	$m
Profit attributable to ordinary equity holders of the Company (basic)	**724**	453
Interest expense on convertible preference shares	**41**	-
Profit attributable to ordinary equity holders of the Company (diluted)	**765**	453
	No of shares	No of shares
Weighted average number of ordinary shares (basic)	**1,277,409,855**	1,273,729,887
Effect of conversion of convertible preference shares	**94,021,565**	-
Weighted average number of ordinary shares (diluted)	**1,371,431,420**	1,273,729,887

4. Dividends

CONSOLIDATED	2012		2011	
	¢ per share	$m	¢ per share	$m
Dividend payments on ordinary shares				
2011 final dividend (2011: 2010 final dividend)	**20**	**255**	20	254
2012 interim dividend (2011: 2011 interim dividend)	**20**	**256**	15	190
Total dividends on ordinary shares	**40**	**511**	35	444
Dividends not recognised in the statement of financial position [1]				
Dividends declared since balance date				
2012 final dividend (2011: 2011 final dividend) [2]	**20**	**256**	20	255
2012 special dividend [2]	**15**	**192**	-	-
	35	**448**	20	255
		$m		$m
Dividend franking account				
Amount of franking credit available for use in subsequent financial years		**752**		740

Notes

1 The impact on the dividend franking account for the final and special dividends declared are expected to reduce the franking account balance by $193 million (2011: $110 million). There are no other income tax consequences for dividends not recognised in the statement of financial position.

2 The total 2012 final and special dividends declared but not recognised in the statement of financial position is estimated based on the total number of ordinary shares on issue net of treasury shares as at 30 June 2012. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2013 will be based on the actual number of ordinary shares on issue net of treasury shares on the record date.

5. Segment reporting

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

5.1. Operating segments

The Suncorp Group comprises the following operating segments:

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

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

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

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

5.1. Operating segments (continued)

BUSINESS AREAS	GENERAL INSURANCE				BANKING	LIFE	CORPORATE	
Operating segments	**Personal $m**	**Commercial $m**	**GI NZ $m**	**Total $m**	**Banking $m**	**Life $m**	**Corporate $m**	**Total $m**
2012								
Revenue from external customers	**5,348**	**3,415**	**1,678**	**10,441**	**4,202**	**1,356**	**69**	**16,068**
Inter-segment revenue	**-**	**-**	**-**	**-**	**26**	**7**	**7**	**40**
Total segment revenue	**5,348**	**3,415**	**1,678**	**10,441**	**4,228**	**1,363**	**76**	**16,108**
Segment profit (loss) before income tax	**206**	**421**	**43**	**670**	**39**	**323**	**(71)**	**961**
Segment income tax expense	**(59)**	**(108)**	**(10)**	**(177)**	**(13)**	**(72)**	**27**	**(235)**
Segment profit (loss) after income tax	**147**	**313**	**33**	**493**	**26**	**251**	**(44)**	**726**
Other segment disclosures								
Interest revenue	**168**	**385**	**24**	**577**	**4,025**	**80**	**37**	**4,719**
Interest expense	**(43)**	**(23)**	**-**	**(66)**	**(3,097)**	**-**	**(7)**	**(3,170)**
Depreciation and amortisation	**(40)**	**(36)**	**(4)**	**(80)**	**(40)**	**(4)**	**(127)**	**(251)**
Impairment expense on Banking loans, advances and other receivables	**-**	**-**	**-**	**-**	**(405)**	**-**	**-**	**(405)**
Share of profits of associates and joint ventures	**7**	**-**	**-**	**7**	**-**	**-**	**-**	**7**
Business area assets				**25,019**	**62,429**	**10,445**	**14,828**	**112,721**
Business area liabilities				**17,271**	**59,453**	**7,723**	**596**	**85,043**
2011								
Revenue from external customers	5,828	3,601	3,195	12,624	4,545	1,844	19	19,032
Inter-segment revenue	2	3	-	5	65	9	1	80
Total segment revenue	5,830	3,604	3,195	12,629	4,610	1,853	20	19,112
Segment profit (loss) before income tax	93	558	(88)	563	145	223	(239)	692
Segment income tax expense	(28)	(169)	26	(171)	(61)	(74)	60	(246)
Segment profit (loss) after income tax	65	389	(62)	392	84	149	(179)	446
Other segment disclosures								
Interest revenue	187	407	26	620	4,404	49	16	5,089
Interest expense	(58)	(31)	-	(89)	(3,494)	(3)	-	(3,586)
Depreciation and amortisation	(31)	(35)	(15)	(81)	(42)	(8)	(149)	(280)
Impairment expense on Banking loans, advances and other receivables	-	-	-	-	(325)	-	-	(325)
Share of profits of associates and joint ventures	4	-	-	4	-	-	-	4
Business area assets				24,683	61,131	9,593	14,527	109,934
Business area liabilities				17,005	57,991	7,120	424	82,540

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

CONSOLIDATED	2012	2011	2012	2011
	Revenue		**Profit before income tax**	
	$m	**$m**	**$m**	**$m**
Segment total	**16,108**	19,112	**961**	692
Elimination of intragroup investment revenue	**(65)**	(50)	**(65)**	(50)
Other consolidation eliminations	**(9)**	(29)	**67**	60
Consolidated total	**16,034**	19,033	**963**	702
	Assets		**Liabilities**	
	$m	**$m**	**$m**	**$m**
Business area total	**112,721**	109,934	**85,043**	82,540
Elimination of investment in subsidiaries	**(13,527)**	(13,253)	**-**	-
Elimination of intragroup investments	**(1,699)**	(244)	**(1,691)**	(222)
Elimination of other intragroup balances	**(1,145)**	(746)	**(1,143)**	(629)
Other consolidation eliminations and reclassifications	**(288)**	(203)	**(274)**	(219)
Consolidated total	**96,062**	95,488	**81,935**	81,470

5.3. Geographical segments

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

5.4. Major customers

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

5.5. Results by business area

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

5.5.1. Summary of revenue and expenses by business area

	Note	2012				2011			
		General Insurance $m	Banking $m	Life $m	Corporate $m	General Insurance $m	Banking $m	Life $m	Corporate $m
Revenue									
Insurance premium income		**7,584**	**-**	**771**	**-**	7,083	-	791	-
Reinsurance and other recoveries income		**1,726**	**-**	**191**	**-**	4,581	-	205	-
Banking interest income		**-**	**4,025**	**-**	**-**	-	4,404	-	-
Investment revenue		**941**	**17**	**252**	**37**	740	10	636	19
Other income		**190**	**186**	**149**	**39**	225	196	221	1
Total revenue	5.1, 5.2	**10,441**	**4,228**	**1,363**	**76**	12,629	4,610	1,853	20
Expenses									
General Insurance claims expense		**(7,122)**	**-**	**-**	**-**	(9,331)	-	-	-
Life insurance claims expense and movement in policyowner liabilities		**-**	**-**	**(314)**	**-**	-	-	(862)	-
Outwards reinsurance premium expense		**(780)**	**-**	**(166)**	**-**	(806)	-	(195)	-
Interest expense		**(66)**	**(3,097)**	**-**	**(7)**	(89)	(3,494)	(3)	-
Fees and commissions expense		**(309)**	**(90)**	**(156)**	**(1)**	(290)	(78)	(148)	-
Operating expenses		**(1,494)**	**(597)**	**(365)**	**(139)**	(1,550)	(568)	(391)	(150)
Impairment expense on Banking loans, advances and other receivables		**-**	**(405)**	**-**	**-**	-	(325)	-	-
Loss on sale of subsidiaries		**-**	**-**	**-**	**-**	-	-	-	(109)
Outside beneficial interests in managed funds		**-**	**-**	**(39)**	**-**	-	-	(31)	-
Total expenses		**(9,771)**	**(4,189)**	**(1,040)**	**(147)**	(12,066)	(4,465)	(1,630)	(259)
Profit (loss) before income tax	5.1, 5.2	**670**	**39**	**323**	**(71)**	563	145	223	(239)
Income tax expense	5.1	**(177)**	**(13)**	**(72)**	**27**	(171)	(61)	(74)	60
Profit (loss) for the financial year	5.1	**493**	**26**	**251**	**(44)**	392	84	149	(179)

5.5.2. Summary of assets and liabilities by business area

	Note	2012				2011			
		General Insurance $m	Banking $m	Life $m	Corporate $m	General Insurance $m	Banking $m	Life $m	Corporate $m
Assets									
Cash and cash equivalents		**113**	**549**	**828**	**212**	195	345	665	72
Receivables due from other banks		**-**	**154**	**-**	**-**	-	226	-	-
Trading securities	7.2	**-**	**4,787**	**-**	**-**	-	4,952	-	-
Derivatives	6.3, 7.3, 8.3	**50**	**424**	**10**	**-**	23	233	4	-
Investment securities	6.4, 7.2, 8.4, 15.1	**11,477**	**6,308**	**8,191**	**14,132**	10,782	5,742	7,520	13,824
Banking loans, advances and other receivables	7.4	**-**	**49,210**	**-**	**-**	-	48,694	-	-
General Insurance assets	6.5	**7,688**	**-**	**-**	**-**	8,054	-	-	-
Life assets	8.5	**-**	**-**	**721**	**-**	-	-	671	-
Due from Group entities		**128**	**144**	**-**	**-**	-	159	-	49
Property, plant and equipment		**24**	**-**	**4**	**188**	18	69	5	259
Deferred tax assets		**-**	**241**	**-**	**120**	-	182	-	105
Other assets		**323**	**350**	**19**	**62**	343	265	21	144
Goodwill and intangible assets		**5,216**	**262**	**672**	**114**	5,268	264	707	74
Total assets		**25,019**	**62,429**	**10,445**	**14,828**	24,683	61,131	9,593	14,527
Liabilities									
Deposits and short-term borrowings	7.6	**-**	**41,544**	**-**	**-**	-	39,247	-	-
Derivatives	6.3, 7.3, 8.3	**124**	**2,369**	**4**	**-**	90	2,583	-	-
Payables due to other banks		**-**	**41**	**-**	**-**	-	31	-	-
Payables and other liabilities		**1,457**	**634**	**225**	**325**	1,141	669	173	280
Current tax liabilities	11.2	**-**	**-**	**-**	**51**	1	-	-	144
Due to Group entities		**-**	**-**	**52**	**220**	167	-	31	-
General Insurance liabilities	6.6	**14,835**	**-**	**-**	**-**	14,831	-	-	-
Life liabilities	8.6	**-**	**-**	**5,786**	**-**	-	-	6,183	-
Deferred tax liabilities		**132**	**-**	**48**	**-**	81	-	60	-
Managed funds units on issue		**15**	**-**	**1,608**	**-**	16	-	673	-
Securitisation liabilities	7.7	**-**	**3,839**	**-**	**-**	-	3,634	-	-
Debt issues	7.8	**-**	**9,598**	**-**	**-**	-	10,151	-	-
Subordinated notes	6.7, 7.9	**708**	**666**	**-**	**-**	678	846	-	-
Preference shares	7.10	**-**	**762**	**-**	**-**	-	830	-	-
Total liabilities		**17,271**	**59,453**	**7,723**	**596**	17,005	57,991	7,120	424
Net assets		**7,748**	**2,976**	**2,722**	**14,232**	7,678	3,140	2,473	14,103

6. General Insurance – Specific disclosures

6.1. General Insurance – Contribution to profit

GENERAL INSURANCE	2012	2011
	$m	$m
Net earned premium		
Direct premium income	**7,584**	7,083
Outwards reinsurance premium expense	**(780)**	(806)
	6,804	6,277
Net incurred claims		
Claims expense	**(7,122)**	(9,331)
Reinsurance and other recoveries revenue	**1,726**	4,581
	(5,396)	(4,750)
Underwriting expenses		
Acquisition costs	**(931)**	(923)
Liability adequacy test deficiency	**(21)**	(35)
Other underwriting expenses	**(712)**	(711)
	(1,664)	(1,669)
Reinsurance commission revenue	**49**	46
Underwriting result	**(207)**	(96)
Investment revenue – insurance funds		
Investment income on insurance funds	**718**	508
Insurance trading result	**511**	412
Investment income on shareholder funds	**222**	232
Investment expense	**(19)**	(26)
Fee for service and other income	**141**	179
Non-banking interest expense	**(66)**	(89)
Other expenses	**(119)**	(145)
	159	151
General Insurance business area profit before tax	**670**	563

6.2. General Insurance – Net incurred claims

GENERAL INSURANCE	2012			2011		
	Current year $m	Prior year $m	Total $m	Current year $m	Prior year $m	Total $m
Direct business						
Gross claims incurred and related expenses						
Undiscounted	**6,660**	**(221)**	**6,439**	10,570	(1,063)	9,507
Discount and discount movement	**(178)**	**866**	**688**	(518)	315	(203)
Gross claims incurred discounted	**6,482**	**645**	**7,127**	10,052	(748)	9,304
Reinsurance and other recoveries						
Undiscounted	**(1,213)**	**(333)**	**(1,546)**	(5,167)	381	(4,786)
Discount and discount movement	**30**	**(215)**	**(185)**	254	(34)	220
Reinsurance and other recoveries discounted	**(1,183)**	**(548)**	**(1,731)**	(4,913)	347	(4,566)
Total direct business	**5,299**	**97**	**5,396**	5,139	(401)	4,738
Net inwards reinsurance business			**-**			12
Net incurred claims			**5,396**			4,750

The $97 million increase (2011: $401 million decrease) in prior year net provisions on the net incurred claims for 2012, is primarily due to decreases in the discount rate applied to outstanding payments. The sensitivity of net profit to changes in claims assumptions, experience and risk margins is set out in note 6.6.2(e).

6.3. General Insurance – Derivatives

GENERAL INSURANCE	2012			2011		
	Notional value $m	Fair value Asset $m	Fair value Liability $m	Notional value $m	Fair value Asset $m	Fair value Liability $m
Exchange rate-related contracts						
Forward foreign exchange contracts	**219**	**6**	**-**	-	-	-
Cross currency swaps	**291**	**-**	**(72)**	291	-	(88)
	510	**6**	**(72)**	291	-	(88)
Interest rate-related contracts						
Interest rate swaps	**2,013**	**44**	**(52)**	1,675	22	-
Interest rate swaptions	**-**	**-**	**-**	384	1	(1)
Interest rate futures	**749**	**-**	**-**	1,321	-	-
Interest rate options	**50**	**-**	**-**	47	-	(1)
	2,812	**44**	**(52)**	3,427	23	(2)
Equity contracts						
Equity futures	**58**	**-**	**-**	-	-	-
Total derivative exposures – current	**3,380**	**50**	**(124)**	3,718	23	(90)

6.4. General Insurance – Investment securities

GENERAL INSURANCE	2012 $m	2011 $m
Financial assets designated at fair value through profit or loss		
Interest-bearing securities		
Debentures and corporate bonds	**6,026**	7,057
Government and semi-government securities	**4,004**	2,674
Other interest-bearing securities	**908**	965
	10,938	10,696
Unit trusts	**539**	86
Total investment securities – current	**11,477**	10,782

6.5. General Insurance – assets

CONSOLIDATED	2012 $m	2011 $m
Financial assets designated at fair value through profit or loss		
Premiums outstanding	**2,137**	1,864
Reinsurance and other recoveries		
Expected undiscounted outstanding reinsurance and other recoveries	**3,862**	5,050
Discount to present value	**(206)**	(390)
Reinsurance and other recoveries	**3,656**	4,660
Other receivables	**239**	358
Financial assets at amortised cost		
Investment receivables	**145**	34
Deferred insurance assets		
Deferred acquisition costs	**512**	452
Deferred reinsurance assets	**845**	562
Other deferred expenses	**154**	124
Total General Insurance assets	**7,688**	8,054
Current	**5,494**	5,385
Non-current	**2,194**	2,669
Total General Insurance assets	**7,688**	8,054

6.6. General Insurance – liabilities

CONSOLIDATED	Note	2012	2011
		$m	$m
Unearned premium liabilities	6.6.1	**4,226**	3,854
Outstanding claims liabilities	6.6.2	**10,609**	10,977
Total General Insurance liabilities		**14,835**	14,831
Current		**8,269**	8,062
Non-current		**6,566**	6,769
Total General Insurance liabilities		**14,835**	14,831

6.6.1. Unearned premium liabilities

(a) Reconciliation of movement

CONSOLIDATED	2012	2011
	$m	$m
Balance at the beginning of the financial year	**3,854**	3,670
Premiums written during the financial year	**7,955**	7,272
Premiums earned during the financial year	**(7,584)**	(7,083)
Foreign currency exchange movement	**1**	(5)
Balance at the end of the financial year	**4,226**	3,854

(b) Liability adequacy test

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

CONSOLIDATED	2012	2011
	$m	$m
Central estimate of present value of expected future cash flows arising from future claims	**3,156**	2,934
Risk margin	**66**	68
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	**(165)**	(154)
Expected present value of future cash flows for future claims including risk margin	**3,057**	2,848
	%	%
Risk margin	**2.3%**	2.8%
Probability of adequacy	**57 – 64%**	57 – 64%

Future claims costs are calculated at present value of the expected cash flows relating to future claims and includes a risk margin to reflect inherent uncertainty in the central estimate for each portfolio of contracts. The test is based on prospective information and consequently is heavily dependent on assumptions and judgements.

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

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

As at 30 June 2012, the LAT resulted in a deficit for the Australian Commercial Insurance portfolio and a surplus for the Australian Personal Insurance and New Zealand General Insurance portfolios. As at 30 June 2011, the LAT resulted in a surplus for all portfolios except for the New Zealand General Insurance portfolio. Consequently, a $21 million (2011: $35 million) write-down of deferred acquisition costs was recognised in the financial year.

6.6.1. Unearned premium liabilities (continued)

(b) Liability adequacy test (continued)

The deficit for the respective portfolios was determined as follows:

CONSOLIDATED	2012	2011
	CI [1]	NZ [2]
	$m	$m
Central estimate of present value of expected future cash flows arising from future claims	**1,120**	290
Risk margin	**23**	7
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	**(67)**	-
	1,076	297
Unearned premium liability	**1,366**	347
Related intangible asset	**(6)**	-
Related deferred acquisition costs	**(194)**	(70)
Related reinsurance assets	**(111)**	(15)
	1,055	262
LAT deficiency	**21**	35

Notes

1 Australian Commercial Insurance portfolio

2 New Zealand General Insurance portfolio

6.6.2. Outstanding claims liabilities

CONSOLIDATED	2012	2011
	$m	$m
Gross central estimate – undiscounted	**10,003**	11,014
Risk margin	**1,204**	1,247
Claims handling expenses	**384**	396
	11,591	12,657
Discount to present value	**(982)**	(1,680)
Gross outstanding claims liabilities – discounted	**10,609**	10,977
	%	%
Overall net risk margin applied	**17.2**	18.4
Probability of adequacy of the risk margin (approximately)	**90**	90

(a) Reconciliation of movement in discounted outstanding claims liabilities

CONSOLIDATED	2012	2011
	$m	$m
Net outstanding claims liabilities at the beginning of the financial year	**6,317**	6,335
Prior periods		
Claims payments	**(1,877)**	(1,678)
Discount unwind	**201**	194
Margin release on prior periods	**(255)**	(208)
Incurred claims due to changes in assumptions and experience	**(202)**	(383)
Change in discount rate	**345**	(3)
Current period		
Incurred claims	**5,309**	5,145
Claims payments	**(2,885)**	(3,077)
Net foreign exchange difference	**-**	(8)
Net outstanding claims liabilities at the end of the financial year	**6,953**	6,317
Reinsurance and other recoveries on outstanding claims liabilities	**3,656**	4,660
Gross outstanding claims liabilities (discounted) at the end of the financial year	**10,609**	10,977

6.6.2. Outstanding claims liabilities (continued)

(b) Claims development table

The following table shows the development of the estimated undiscounted outstanding claims relative to the ultimate expected claims for the 10 most recent accident years.

CONSOLIDATED	ACCIDENT YEAR											2012
	Prior $m	2003 $m	2004 $m	2005 $m	2006 $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	Total $m
Estimate of ultimate claims cost:												
At end of accident year		1,020	1,044	1,172	1,209	1,246	1,290	1,294	1,332	1,324	1,309	
One year later		994	1,060	1,063	1,119	1,180	1,151	1,281	1,231	1,219		
Two years later		931	924	938	1,038	1,074	1,115	1,172	1,147			
Three years later		827	834	899	963	1,043	1,070	1,152				
Four years later		721	764	847	910	994	1,011					
Five years later		667	723	820	878	966						
Six years later		643	727	813	886							
Seven years later		649	697	816								
Eight years later		673	691									
Nine years later		667										
Current estimate of cumulative claims cost		667	691	816	886	966	1,011	1,152	1,147	1,219	1,309	
Cumulative payments		(624)	(629)	(704)	(744)	(761)	(707)	(647)	(416)	(231)	(68)	
Outstanding claims liabilities – undiscounted	700	43	62	112	142	205	304	505	731	988	1,241	5,033
Discount to present value	(201)	(4)	(7)	(12)	(14)	(18)	(24)	(37)	(52)	(75)	(112)	(556)
Outstanding claims – long-tail	499	39	55	100	128	187	280	468	679	913	1,129	4,477
Outstanding claims – short-tail												1,212
Claims handling expense												258
Risk margin												1,006
Total net outstanding claims liabilities												6,953
Reinsurance and other recoveries on outstanding claims liabilities												3,656
Total gross outstanding claims liabilities												**10,609**

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

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

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

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

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

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

6.6.2. Outstanding claims liabilities (continued)

(d) Actuarial assumptions and methods

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

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

Actuarial assumptions

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

	2012				2011			
	Personal		Commercial		Personal		Commercial	
	Aust	NZ	Aust	NZ	Aust	NZ	Aust	NZ
Weighted average term to settlement (years)	**0.6**	**1.4**	**4.6**	**2.1**	0.6	0.4	4.9	1.6
Economic inflation rate	**4.0%**	**1.8%**	**4.0%**	**2.1%**	4.1%	3.0%	4.5%	3.0%
Superimposed inflation rate	**n/a**	**n/a**	**2.5%**	**1.9%**	n/a	n/a	2.7%	1.9%
Discount rate	**2.6%**	**3.0%**	**2.9%**	**2.8%**	4.8%	2.9%	5.1%	3.8%
Claims handling expense ratio	**6.0%**	**4.8%**	**4.3%**	**6.6%**	9.2%	5.2%	4.3%	5.4%
Risk margin	**9.0%**	**16.3%**	**18.8%**	**27.0%**	12.8%	10.4%	19.2%	20.3%

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

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

Discount rate – Projected payments are discounted at a risk-free rate to allow for the time value of money. Discount rates are derived from market yields on Commonwealth Government securities in Australia and the 10-year government stock rate in New Zealand at the balance date.

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

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

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

The assumptions regarding uncertainty for each class of business are applied to the net central estimates, and the results are aggregated, allowing for diversification, in order to arrive at an overall position which is intended to have an approximate probability of sufficiency of 90% across the Suncorp Group (2011: 90%).

6.6.2. Outstanding claims liabilities (continued)

(e) Impact of changes in key variables

The Suncorp Group conducts sensitivity analyses to quantify the exposure to the risk of changes in the key underlying assumptions. A sensitivity analysis is conducted on each variable while holding all other variables constant. The tables below describe how a change in each assumption will affect the profit before tax. A change in each assumption will have no impact to equity reserves.

		2012	2011
	Movement in variable	Profit (loss) before tax $m	Profit (loss) before tax $m
Weighted average term to settlement (years)	+ 0.5 years	**(106)**	(52)
	– 0.5 years	**106**	52
Inflation rate	+1%	**(217)**	(191)
	–1%	**206**	181
Discount rate	+1%	**204**	178
	–1%	**(227)**	(195)
Claims handling expense ratio	+1%	**(53)**	(47)
	–1%	**53**	47
Risk margin	+1%	**(56)**	(50)
	–1%	**56**	50

6.7. General Insurance – Subordinated notes

GENERAL INSURANCE			2012	2011
	Due date	First call	$m	$m
Financial liabilities at amortised cost				
Fixed rate notes	September 2024	September 2014	**136**	130
	September 2025	September 2015	**118**	118
	October 2026	October 2016	**107**	99
	June 2027	June 2017	**218**	202
Floating rate notes	September 2024	September 2014	**52**	52
	September 2025	September 2015	**77**	77
Total subordinated notes (unsecured) – non-current			**708**	678

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

6.8. General Insurance – Minimum capital requirement (MCR)

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

The regulatory capital position of the General Insurance business area[1] at the end of the financial year was:

GENERAL INSURANCE	2012	2011
	$m	$m
Tier 1 capital		
Share capital	**7,812**	8,016
Reserves	**(66)**	(69)
Retained profits	**(174)**	(433)
Insurance liabilities in excess of liability valuation	**787**	737
Less: Tax effect of excess insurance liabilities	**(236)**	(221)
	8,123	8,030
Less:		
Goodwill and other intangible assets	**(5,217)**	(5,268)
Other Tier 1 deductions	**(1)**	(6)
Total deductions from Tier 1 capital	**(5,218)**	(5,274)
Total Tier 1 capital	**2,905**	2,756
Tier 2 capital		
Subordinated notes	**764**	769
Total Tier 2 capital	**764**	769
APRA capital base	**3,669**	3,525
Total minimum capital requirement (MCR)	**2,277**	2,110
MCR coverage ratio (times)	**1.61**	1.67

Note

1 As represented by the Level 2 insurance group as defined by APRA Prudential standard *GPS 001 Definitions*.

7. Banking – Specific disclosures

7.1. Banking – Contribution to profit

BANKING	2012	2011
	$m	$m
Net interest income		
Interest income	**4,025**	4,404
Interest expense	**(3,097)**	(3,494)
	928	910
Net banking fee and commission income		
Fee and commission income	**186**	196
Fee and commission expense	**(90)**	(78)
	96	118
Investment and other revenue		
Net profits on derivatives and other financial instruments	**15**	10
Other income	**2**	-
	17	10
Non-interest income	**113**	128
Total income from Banking activities	**1,041**	1,038
Operating expenses		
Operating expenses	**(597)**	(568)
Impairment losses on loans and advances	**(405)**	(325)
Banking business area profit before tax	**39**	145

The components of interest income and expense that relate to financial assets or liabilities carried at fair value through profit and loss are those related to trading assets of $196 million (2011: $296 million) and liabilities designated at fair value through profit and loss of $25 million (2011: $21 million) respectively.

7.2. Banking – Trading and investment securities

BANKING	2012	2011
	$m	$m
Trading securities – current		
Financial assets at fair value through profit or loss		
Interest-bearing securities: Bank bills, certificates of deposits and other negotiable securities	**4,787**	4,952

Interest income of $196 million (2011: $296 million) and net losses of $nil (2011: $1 million) on financial assets carried at fair value through profit or loss were recognised for the financial year. Consolidated net gains (losses) of $nil (2011: $1 million) on financial assets held for trading are recognised in profit or loss.

BANKING	2012	2011
	$m	$m
Investment securities		
Available-for-sale financial assets		
Interest-bearing securities	**2,522**	5,731
Unit trusts	**14**	11
	2,536	5,742
Held-to-maturity investments		
Interest-bearing securities	**3,772**	-
Total investment securities	**6,308**	5,742
Current	**14**	212
Non-current	**6,294**	5,530
Total investment securities	**6,308**	5,742

During the financial year ended 30 June 2012, $2,967 million (2011: $nil) of available-for-sale financial assets were reclassified to held-to-maturity investments as a result of a change in intention to hold these investments to maturity.

7.3. Banking – Derivatives

BANKING	2012			2011		
	Notional value	Fair value		Notional value	Fair value	
		Asset	Liability		Asset	Liability
	$m	$m	$m	$m	$m	$m
Exchange rate-related contracts						
Forward foreign exchange contracts	**4,628**	**11**	**(81)**	5,117	19	(58)
Cross currency swaps	**6,979**	**72**	**(1,822)**	8,853	88	(2,306)
Currency options	**17**	**-**	**-**	27	-	-
	11,624	**83**	**(1,903)**	13,997	107	(2,364)
Interest rate-related contracts						
Forward rate agreements	**100**	**-**	**-**	1,000	-	-
Interest rate swaps	**61,583**	**337**	**(465)**	45,607	124	(218)
Interest rate futures	**2,811**	**4**	**(1)**	2,905	2	(1)
Interest rate options	**182**	**-**	**-**	240	-	-
	64,676	**341**	**(466)**	49,752	126	(219)
Total derivative exposures – current	**76,300**	**424**	**(2,369)**	63,749	233	(2,583)

7.4. Banking loans, advances and other receivables

CONSOLIDATED	Note	2012	2011
		$m	$m
Financial assets at amortised cost			
Banking			
Housing loans [1]		**33,955**	30,994
Consumer loans		**482**	558
Business loans		**13,392**	15,373
Other lending [2]		**1,918**	2,333
		49,747	49,258
Provision for impairment	7.5.1	**(537)**	(564)
		49,210	48,694
Consolidated			
General Insurance and Life loans with Banking		**(30)**	(55)
Total Banking loans, advances and other receivables		**49,180**	48,639
Current		**7,350**	9,162
Non-current		**41,830**	39,477
Total Banking loans, advances and other receivables		**49,180**	48,639

Notes

1 Includes securitised housing loan balances of $4,178 million (2011: $3,980 million) which has an equivalent securitised liability.

2 Includes $1,890 million (2011: $2,274 million) of collateral representing credit support to secure the Bank's liability position, as part of the standard International Swaps and Derivatives Association agreement used by the Bank.

7.4. Banking loans, advances and other receivables (continued)

(a) Finance lease receivables

Included in business loans are the following finance lease receivables:

CONSOLIDATED	2012	2011
	$m	$m
Gross investment in finance lease receivables:		
Less than one year	**203**	403
Between one and five years	**298**	392
More than five years	**-**	3
	501	798
Unearned future income on finance leases	**(60)**	(83)
Net investment in finance lease receivables	**441**	715
Net investment in finance lease receivables		
Less than one year	**195**	387
Between one and five years	**246**	327
More than five years	**-**	1
	441	715

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

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

CONSOLIDATED	2012	2011
	$m	$m
Collective provision		
Balance at the beginning of the financial year	**177**	201
Credit against impairment losses	**(32)**	(24)
Balance at the end of the financial year	**145**	177
Specific provision		
Balance at the beginning of the financial year	**387**	471
Charge against impairment losses	**406**	329
Impaired assets written off	**(255)**	(252)
Unwind of discount	**(146)**	(161)
Balance at the end of the financial year	**392**	387
Total provisions	**537**	564

7.5.2. Impairment expense on Banking loans, advances and other receivables

CONSOLIDATED	2012	2011
	$m	$m
Decrease in collective provision for impairment	**(32)**	(24)
Increase in specific provision for impairment	**406**	329
Bad debts written off	**39**	25
Bad debts recovered	**(8)**	(5)
Total impairment expense	**405**	325

7.6. Banking – Deposits and short-term borrowings

CONSOLIDATED	2012	2011
	$m	$m
Banking		
Financial liabilities at amortised cost		
Call deposits	**10,098**	9,520
Term deposits	**19,960**	18,393
Short-term securities issued	**7,466**	7,296
Offshore borrowings	**305**	198
Financial liabilities designated at fair value through profit or loss		
Offshore borrowings	**3,715**	3,840
	41,544	39,247
Consolidated		
General Insurance, Life and Corporate call deposits with Banking at amortised cost	**(836)**	(389)
Total deposits and short-term borrowings (unsecured) – current	**40,708**	38,858

Interest expense of $25 million (2011: $21 million) on financial liabilities designated at fair value through profit or loss was recognised in the financial year.

Fair value movement from changes in credit risk of financial liabilities designated at fair value through profit or loss of $nil (2011: $nil) was recognised for the financial year and cumulatively. The contractual amount payable at maturity of these liabilities is $3,714 million (2011: $3,874 million).

Consolidated net gains (losses) of $nil (2011: $1 million) on financial liabilities designated at fair value through profit or loss are recognised in profit or loss.

7.7. Banking – Securitisation liabilities

CONSOLIDATED	2012	2011
	$m	$m
Financial liabilities at amortised cost		
Banking		
Notes issued	**3,839**	3,634
Consolidated		
General Insurance and Life investments in Banking's securitsation liabilities	**(39)**	(102)
Total securitisation liabilities (secured)	**3,800**	3,532
Current	**1,021**	915
Non-current	**2,779**	2,617
Total securitisation liabilities (secured)	**3,800**	3,532

The Suncorp Group conducts a loan securitisation program whereby housing mortgage loans are packaged and sold to the securitisation vehicles known as the Apollo Trusts (Trusts). The Trusts fund their purchase of the loans by issuing floating-rate pass-through debt securities. These are represented as securitisation liabilities of the Suncorp Group.

The Suncorp Group does not stand behind the capital value or the performance of the securities or the assets of the Trusts; and it does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the Trusts. The Suncorp Group is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support.

7.8. Banking – Debt issues

CONSOLIDATED	2012	2011
	$m	$m
Borrowings at amortised cost		
Banking		
Offshore borrowings	**4,334**	5,333
Domestic borrowings	**3,666**	4,818
Total unsecured debt issues	**8,000**	10,151
Domestic covered bonds issued	**1,598**	-
Total secured debt issues	**1,598**	-
	9,598	10,151
Consolidated		
General Insurance and Life investments in Banking's debt securities		
Domestic borrowings	**(29)**	(120)
Total debt issues	**9,569**	10,031
Current	**3,072**	2,522
Non-current	**6,497**	7,509
Total debt issues	**9,569**	10,031

Covered bonds issued are guaranteed by the Covered Bond Guarantor and are secured over a covered pool which consists of $2,139 million of loans, advances and other receivables. The Covered Bond Guarantor can take possession of the cover pool under certain Title Perfection Events, as detailed in clause 6.1 of the Mortgage Sale Deed.

7.9. Banking – Subordinated notes

BANKING			2012	2011
	Due date	First call	$m	$m
Financial liabilities at amortised cost				
Fixed rate notes (USD)	June 2013	Not applicable	**104**	99
Fixed rate notes (GBP)	October 2017	October 2012	**392**	400
Fixed rate notes (EUR)	October 2011	October 2011	**-**	177
Perpetual floating rate notes (AUD)			**170**	170
Total subordinated notes (unsecured)			**666**	846
Current			**496**	177
Non-current			**170**	669
Total subordinated notes (unsecured)			**666**	846

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

7.10. Banking – Preference shares

CONSOLIDATED	2012		2011	
	No. of shares	$m	No. of shares	$m
Convertible preference shares each fully paid	**7,350,000**	**732**	7,350,000	728
Reset preference shares each fully paid	**304,063**	**30**	1,022,582	102
Total preference shares	**7,654,063**	**762**	8,372,582	830
Current		**732**		102
Non-current		**30**		728
Total preference shares		**762**		830

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

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

(a) Reset preference shares

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

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

RPS reset on 14 September 2011 with 718,519 exchange requests received and exchanged for $72 million in cash. The Suncorp Group restructure in the prior financial year was a Control Event as defined in the RPS terms, triggering an option for holders to request exchange. 418,046 exchange requests were received and exchanged for $42 million in cash on 23 March 2011. The exchanged RPS were cancelled on the respective exchange dates. The next reset date is 14 September 2016.

(b) Convertible preference shares

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

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

7.10. Banking – Preference shares (continued)

(c) Preference share dividends paid

CONSOLIDATED	2012			2011		
	¢ per share	$m	Date paid	¢ per share	$m	Date paid
Recognised as interest expense						
Reset preference shares						
Period from March to September	**255**	**3**	**14 September 2011**	255	4	14 September 2010
Period from September to March	**210**	**1**	**14 March 2012**	251	4	14 March 2011
		4			8	
Convertible preference shares						
September quarter	**145**	**11**	**14 September 2011**	142	10	14 September 2010
December quarter	**141**	**10**	**14 December 2011**	140	10	14 December 2010
March quarter	**134**	**10**	**14 March 2012**	143	11	14 March 2011
June quarter	**136**	**10**	**14 June 2012**	144	11	14 June 2011
		41			42	

7.11. Banking – Capital adequacy

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

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

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

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

The measurement of risk-weighted exposures is based on:

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

7.11. Banking – Capital adequacy (continued)

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

BANKING	2012	2011
	$m	**$m**
Tier 1		
Fundamental Tier 1		
Ordinary share capital	**2,189**	1,789
Retained profits	**517**	902
	2,706	2,691
Residual Tier 1		
Reset preference shares	**30**	102
Convertible preference shares	**735**	736
Preference shares not eligible for inclusion in Tier 1	**-**	(15)
	765	823
Tier 1 deductions		
Goodwill and other intangibles arising on acquisition	**(27)**	(29)
Tier 1 deductions for investments in subsidiaries, capital support	**(13)**	(18)
Other Tier 1 deductions	**(244)**	(176)
	(284)	(223)
Total Tier 1 capital	**3,187**	3,291
Tier 2		
Upper Tier 2		
APRA general reserve for credit losses	**221**	248
Perpetual subordinated notes	**170**	170
Asset revaluation reserves	**-**	17
Preference shares not eligible for inclusion in Tier 1	**-**	15
	391	450
Lower Tier 2		
Subordinated notes	**614**	883
Tier 2 deductions for investments in subsidiaries, capital support	**(13)**	(18)
Total Tier 2 capital	**992**	1,315
Capital base	**4,179**	4,606
Total assessed risk	**33,050**	34,365
Risk-weighted capital ratios	**%**	**%**
Tier 1	**9.6**	9.6
Tier 2	**3.0**	3.8
Total risk-weighted capital ratio	**12.6**	13.4

8. Life – Specific disclosures

8.1. Life – Contribution to profit

LIFE	2012	2011
	$m	$m
Income		
Premiums received or receivable	**1,643**	1,292
Premiums recognised as a change in gross policy liabilities	**(872)**	(501)
Premium income	**771**	791
Outwards reinsurance premium expense	**(166)**	(195)
	605	596
Investment income	**252**	636
Fees from trust and fiduciary activities	**60**	104
Other income	**89**	117
	1,006	1,453
Expenses		
Claims paid or payable	**(1,700)**	(1,316)
Claims recognised as a change in gross policy liabilities	**1,149**	782
Claims expense	**(551)**	(534)
Reinsurance recoveries revenue	**191**	205
	(360)	(329)
Policy acquisition expenses		
commission	**(83)**	(81)
other	**(122)**	(90)
Policy maintenance expenses		
commission	**(73)**	(67)
other	**(149)**	(116)
Investment management expenses	**(43)**	(19)
Other operating expenses	**(51)**	(166)
Decrease (increase) in net insurance contract liabilities	**280**	(79)
(Increase) in net investment contract liabilities	**(60)**	(270)
Decrease in unvested policyowner benefits	**17**	21
Outside beneficial interests in managed funds	**(39)**	(31)
Non-banking interest expense	**-**	(3)
	(683)	(1,230)
Life business area profit before tax	**323**	223

8.2. Sources of Life business operating profit

LIFE	2012				2011			
	Life insurance contracts $m	Investment linked contracts $m	Other Life investment contracts $m	Total statutory funds $m	Life insurance contracts $m	Investment linked contracts $m	Other Life investment contracts $m	Total statutory funds $m
2012								
Shareholders' operating profit after tax in the statutory funds								
Represented by:								
Investment earnings on shareholders' retained profits and capital	**45**	**4**	**1**	**50**	66	4	1	71
Emergence of shareholders' planned profits	**76**	**-**	**-**	**76**	94	-	-	94
Experience profit (loss)	**44**	**-**	**-**	**44**	(39)	-	-	(39)
Reversal of capitalised loss	**(4)**	**-**	**-**	**(4)**	2	-	-	2
Management services profit	-	**5**	**-**	**5**	-	8	-	8
	161	**9**	**1**	**171**	123	12	1	136
Cumulative losses carried forward at the end of the financial year	**38**	**-**	**-**	**38**	24	-	-	24
***Life Act* policyowners' operating profit after tax in the statutory funds**								
Represented by:								
Investment earnings on retained profits	**11**	**-**	**-**	**11**	26	-	-	26
Emergence of policyowner planned profits	**72**	**-**	**-**	**72**	63	-	-	63
Experience (loss) profit	**(3)**	**-**	**-**	**(3)**	4	-	-	4
Revaluation of capitalised losses	**(9)**	**-**	**-**	**(9)**	-	-	-	-
	71	**-**	**-**	**71**	93	-	-	93

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

8.3. Life – Derivatives

LIFE	2012			2011		
	Notional	Fair value		Notional	Fair value	
	value $m	Asset $m	Liability $m	value $m	Asset $m	Liability $m
Exchange rate-related contracts						
Forward foreign exchange contracts	**279**	**7**	**-**	260	3	-
Interest rate-related contracts						
Interest rate swaps	**269**	**2**	**(4)**	292	1	-
Interest rate futures	**(104)**	**-**	**-**	(123)	-	-
Interest rate options	**7**	**-**	**-**	(19)	-	-
	172	**2**	**(4)**	150	1	-
Equity contracts						
Equity futures	**88**	**1**	**-**	26	-	-
Total derivative exposures – current	**539**	**10**	**(4)**	436	4	-

8.4. Life – Investment securities

LIFE	2012	2011
	$m	$m
Financial assets at fair value through profit or loss		
Interest-bearing securities		
Debentures and corporate bonds	**2,064**	1,783
Government and semi-government securities	**562**	706
Discounted securities	**1,709**	59
Other interest-bearing securities	**25**	-
	4,360	2,548
Equity securities	**2,184**	1,339
Property trusts	**220**	292
Unit trusts	**1,405**	3,268
Other	**22**	73
Total investment securities - current	**8,191**	7,520

8.5. Life assets

CONSOLIDATED	2012	2011
	$m	$m
Financial assets designated at fair value through profit or loss		
Gross policy liabilities ceded under reinsurance	**443**	339
Other receivables	**87**	103
Financial assets at amortised cost		
Other receivables	**176**	211
Deferred insurance assets		
Life deferred insurance assets	**15**	18
Total Life assets	**721**	671
Current	**349**	345
Non-current	**372**	326
Total Life assets	**721**	671

8.6. Life liabilities

CONSOLIDATED	Note	2012	2011
		$m	$m
Gross policy liabilities			
Investment contract policy liabilities		**3,387**	3,663
Insurance contract policy liabilities	8.7.3	**1,837**	1,958
	8.6.1	**5,224**	5,621
Unvested policyowner benefits	8.6.2	**366**	383
Outstanding claims liabilities		**186**	167
Unearned premium liabilities		**10**	12
Total Life liabilities		**5,786**	6,183
Current		**772**	521
Non-current		**5,014**	5,662
Total Life liabilities		**5,786**	6,183

8.6.1. Gross life policy liabilities

CONSOLIDATED	2012			2011		
	Investment contracts $m	Insurance contracts $m	Total policy liabilities $m	Investment contracts $m	Insurance contracts $m	Total policy liabilities $m
Policy liabilities						
Policy liabilities at the beginning of financial year	**3,663**	**1,958**	**5,621**	3,672	1,911	5,583
Movement in policy liabilities reflected in profit or loss	**60**	**(177)**	**(117)**	270	92	362
Contributions and premiums recognised in policy liabilities	**369**	**503**	**872**	358	143	501
Withdrawals and claims expense recognised in policy liabilities	**(700)**	**(449)**	**(1,149)**	(596)	(186)	(782)
Fee expense recognised as a change in policy liabilities	**(8)**	**-**	**(8)**	(31)	-	(31)
Foreign currency exchange movement	**3**	**2**	**5**	(10)	(2)	(12)
Policy liabilities at the end of financial year	**3,387**	**1,837**	**5,224**	3,663	1,958	5,621

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

8.6.2. Unvested policyowner benefits

CONSOLIDATED	2012	2011
	$m	$m
Unvested policyowner benefits at the beginning of financial year	**383**	404
(Decrease) in unvested policyowner benefits	**(17)**	(21)
Unvested policyowner benefits at the end of financial year	**366**	383

8.7. Life – Net policy liabilities

8.7.1. Life liability estimation process

The Suncorp Group conducts its life insurance business in Australia through Suncorp Life & Superannuation Limited (SLSL) and in New Zealand through Asteron Life Limited (New Zealand) (ALLNZ). Prior to 1 January 2012, the Suncorp Group also conducted its life business in Australia through Asteron Life Limited (Australia) (ALL). ALL transferred its life insurance business to SLSL on 1 January 2012 pursuant to a scheme under Part 9 of the *Life Insurance Act 1995* approved by the Federal Court of Australia. SLSL, ALL, and ALLNZ are collectively referred to as the Life companies.

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

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

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

Actuarial reports with an effective date of 30 June 2012 were prepared in relation to policy liabilities and solvency reserves. All reports indicated that the Appointed Actuaries are satisfied as to the accuracy of the data upon which policy liabilities have been determined. The actuarial report for SLSL was prepared by Mr Rob Desoisa, Appointed Actuary B Sc (Hons), FIAA, and the actuarial report for ALLNZ was prepared by Mr Daniel Wong, Appointed Actuary MMgt FIAA FNZSA.

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

Business type	Method	Life company		Profit carrier
		SLSL	ALLNZ	
Individual				
Conventional	Projection	✓	✓	Participating business – bonuses Non-participating business – expected claim payments
Investment account	Projection	✓	n/a	Interest credits
Accidental cash back	Projection	✓	n/a	Expected payments
Allocated pension	Projection	✓	n/a	Interest credits
Lump sum risk	Projection	✓	✓	Expected premium payments
Disability income risk	Projection	✓	✓	Expected claim payments
Annuity	Projection	✓	✓	Annuity payments
Group				
Investment account	Projection	✓	n/a	Interest credits
Disability income risk	Projection	✓	✓	Expected claim payments
Lump sum risk	Projection	✓	✓	Expected claim payments

Under the projection method, estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The projected profit margins are expressed as a percentage of the relevant profit carrier. The policy liability is calculated as the net present value of these projected cash flows. Under the accumulation method for risk business, the policy liability is equal to the sum of reserves for incurred but not reported claims, unearned premiums and open disability income claims.

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

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

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

Assumption	Basis of assumption	Significant changes since 2011
Investment earnings – participating business	Assumed earning rates are determined having regard to the asset mix of the investment portfolio backing the benefits, the assumed earning rates for each sector, market conditions at the valuation date and tax on investment earnings appropriate to the class of business and asset sector. See rates for each company in the following table.	No change in approach.
Investment earnings – non-participating business	All non-participating businesses use an investment earnings and discount rate assumption of the risk-free rate. This has been determined from the government bond curve. See rates for each company in the table below.	For ALLNZ, this was previously determined from the swap rate curve. No change in approach for Australia.
Maintenance expenses	Per policy expense rates are based upon expected costs to service existing contracts in the period following the reporting date. Expense rates vary by product line and class of business.	No change in approach.
Inflation	The inflation rate assumed takes into account the difference between the long-term government bonds and indexed government bonds. Australia 2.5% (2011: 3.0%), New Zealand 2.5% (2011: 2.5%).	Decreased by 0.5% for Australia.
Benefit indexation	Where future benefits increase in line with inflation, the relevant country's assumed inflation rate is used.	None
Voluntary discontinuance	Rates are based upon recent internal investigations. Rates may vary by product, class of business, policy value, age and duration in force. Allowance is also made for cash withdrawals. See rates for each life company in the following table.	Moderate increases for risk business having regard to recent experience.
Surrender values	Surrender values are determined by applying the surrender bases current at the reporting date.	None
Rates of taxation	The rates of taxation assumed are based on current income tax legislation applicable to the type of product.	None
Mortality – individual risk products	For both Australia and New Zealand, mortality rates for risk products have been determined using standard mortality tables which were developed by the Australian and New Zealand actuarial bodies.	None
Mortality – annuitants	Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments for assumed future age-related improvements. Tables IM/IF80 were developed by the Institute of Actuaries and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982.	None
Morbidity – lump sum	Morbidity rates on lump sum Total and Permanent Disablement (TPD) policies have been based on industry and population experience with adjustments to reflect experience. For trauma policies, assumed incidence rates are based on Australian/New Zealand population statistics with adjustments to reflect experience and policy conditions.	Moderate increases to trauma and TPD assumptions for risk business having regard to recent experience.
Disability – income	Morbidity rates on income policies have been determined using the IAD89-93 table with adjustments to reflect experience. IAD89-93 was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993.	Moderate increases to incidence rates, and moderate decreases to termination rates having regard to recent experience.

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

Assumption	Basis of assumption	Significant changes since 2011
Group lump sum	Claim rates are set as a proportion of premiums net of commission, stamp duty and GST (where applicable).	None
Group disability income	Claim rates are set as a proportion of premiums net of commission, stamp duty and GST (where applicable). For SLSL, claim termination rates are determined using CIDA85 with adjustments to reflect SLSL's experience. For ALLNZ, claim termination rates are determined using IAD89-93 with adjustments to reflect ALLNZ's experience.	None
Future supportable bonuses and interest credits to participating policies	Future bonus rates and interest credits assumed are those supported by the value of assets supporting the participating policies and the assumed future experience, including allowance for the shareholder's right to participate in distributions. Distributions are split between policyowners and shareholders with the valuation allowing for shareholders to share in distributions at the maximum allowable rate of 20%.	No change in approach.

Assumption	SLSL		ALL		ALLNZ	
	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %
Investment earnings pre-tax for participating business	**4.3 – 5.3**	6.5 – 7.6	**n/a**	6.9 – 7.4	**5.0**	6.7
Investment earnings pre-tax for non-participating business	**2.3 – 4.4**	4.7 – 6.1	**n/a**	4.7 – 5.7	**2.5 – 4.9**	2.9 – 6.4
Voluntary discontinuance	**3 – 30**	4 – 30	**n/a**	3 – 32	**4 – 20**	4 – 20
Mortality – individual risk products adjustment	**59 – 170**	70 – 170	**n/a**	59 – 68	**70 – 110**	70 – 110
Mortality – annuitants	**60**	60	**n/a**	60	**66**	67
Future improvements in mortality – annuitants	**97.3**	97.3	**n/a**	97.3	**97.5**	97.5

8.7.3. Insurance contract policy liabilities

CONSOLIDATED	2012		2011
Insurance contract policy liabilities	Current basis [4] $m	Previous basis [5] $m	Previous basis [6] $m
Best estimate liability			
Value of future policy benefits [1]	**5,450**	**5,202**	4,354
Value of future expenses	**2,587**	**2,677**	2,084
Value of unrecouped acquisition expenses	**(213)**	**(213)**	(177)
Balance of future premiums	**(8,059)**	**(8,210)**	(6,395)
	(235)	**(544)**	(134)
Value of future profits			
Policyowner bonuses [2]	**366**	**530**	558
Shareholder profit margins	**1,181**	**1,313**	1,085
	1,547	**1,843**	1,643
Total value of declared bonuses [3]	**82**	**82**	110
Total net policy liabilities	**1,394**	**1,381**	1,619
Life insurance reinsurance ceded	**443**	**443**	339
Gross insurance contract liabilities	**1,837**	**1,824**	1,958
Policy liabilities subject to capital guarantee	**1,395**	**12**	1,345

Notes

1 Future policy benefits include bonuses credited to policyowners in prior periods but exclude current period bonuses and future bonuses. Where business is valued by other than projection techniques, future policy benefits include the account balance.
2 Future bonuses exclude current period bonuses.
3 Current year declared bonuses valued in accordance with the actuarial standards.
4 Based on actuarial methods and assumptions relevant at the current reporting date, on current in-force business as at 30 June 2012.
5 Based on actuarial methods and assumptions relevant at the previous reporting date, on current in-force business as at 30 June 2012.
6 Based on actuarial methods and assumptions relevant at the previous reporting date, on current in-force business as at 30 June 2011.

8.7.4. Sensitivity analysis

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

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

8.7.4. Sensitivity analysis (continued)

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

The following table illustrates the impact in the current period of changes in key assumptions as at 30 June 2012. The change in liability and profit (loss) are shown net and gross of reinsurance.

		Change in insurance contract liability		Profit (loss) after tax	
Variable	Change [1]	Net of reinsurance $m	Gross of reinsurance $m	Net of reinsurance $m	Gross of reinsurance $m
Maintenance expense	+ 10% increase	2	2	(1)	(1)
Mortality and lump sum morbidity	+ 10% increase	(5)	(5)	3	4
Morbidity – disability income	+ 10% increase in incidence and decrease in recovery rates	124	250	(87)	(175)
Discontinuance rates	+ 10% increase	5	7	(3)	(5)

Note

1 Sensitivity changes are relative to current best estimate assumptions.

The following table illustrates the effects of changes in actuarial assumptions from 30 June 2011 to 30 June 2012. Part of the effect of the change in variables below may have been absorbed in to profit margins.

	Future profit	Policy liabilities
Assumption category	Increase (decrease) $m	Increase (decrease) $m
Discount rates (risk business) [1]	5	(135)
Discount rates (participating business)	(43)	10
Mortality and morbidity	(21)	-
Morbidity income	(21)	-
Lapse and surrender rates	(50)	-
Maintenance expenses	(5)	(1)

Note

1 Effects for risk business is shown gross of tax.

8.8. Life – Capital and solvency requirements

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

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

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

The methodology and bases for determining Australian solvency requirements is in accordance with LPS 2.04 *Solvency Standard*, as required under the *Life Act*. For New Zealand, this amount has been calculated in accordance with *Solvency Standard for Life Insurance Business* issued by the Reserve Bank of New Zealand, as required under the *Insurance (Prudential Supervision) Act 2010*.

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

LIFE	2012	2011
	$m	$m
Solvency requirement	**7,450**	7,445
Assets available for solvency reserve	**946**	994
Solvency reserve	**5.8%**	6.3%
Coverage of solvency reserve (times)	**2.5**	2.3

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

8.9. Life – Managed assets and trustee activities

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

Companies within the Suncorp Group are used to manage assets of subsidiaries, superannuation schemes and unit trusts of the Suncorp Group as well as external clients. Companies within the Suncorp Group also undertake trustee activities. The funds under administration by trustee companies are listed in the table below:

TRUSTEE / FUND MANAGER	2012	2011
	$m	$m
Asteron Retirement Investment Limited & Asteron Trust Services Limited [1]	**245**	299
Suncorp Portfolio Services Limited [2]	**5,660**	5,996

Notes

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

2 Trustee for various internal and external superannuation funds.

Suncorp Group and Corporate disclosures

9. Revenue

9.1. Investment revenue

CONSOLIDATED	2012	2011
	$m	$m
Interest income	**729**	707
Trust distributions	**352**	249
Dividends	**98**	66
Changes in fair value of General Insurance financial assets	**249**	56
Changes in fair value of Life financial assets	**(276)**	250
Net gains on derivative and other financial instruments	**16**	12
Rental income from investment property	**15**	18
Total investment revenue	**1,183**	1,358

9.2. Other income

CONSOLIDATED	2012	2011
	$m	$m
Fees and commissions	**307**	262
Fees from trust and fiduciary activities	**177**	242
Gain on disposal of property, plant and equipment	**69**	-
Other revenue	**1**	110
Total other income	**554**	614

10. Operating expenses

CONSOLIDATED	Note	2012	2011
		$m	$m
Staff expenses			
Wages, salaries, share-based payments and other staff costs [1]		**1,487**	1,468
Defined contribution superannuation expenses		**91**	93
		1,578	1,561
Occupancy and equipment expenses			
Operating lease rentals		**146**	147
Other		**49**	52
		195	199
Information technology and communication		**229**	207
Depreciation and amortisation			
Depreciation	16	**84**	93
Amortisation	18	**167**	187
		251	280
Other expenses			
Advertising and promotion expenses		**209**	199
Consultancy and legal expenses		**99**	53
Other		**40**	155
		348	407
Total operating expenses		**2,601**	2,654

Note

1 Includes $22,657 thousand (2011: $17,104 thousand) relating to equity-settled share-based payment transactions.

11. Income tax

11.1. Income tax expense

CONSOLIDATED	2012	2011
	$m	$m
Profit before tax	**963**	702
Income tax using the domestic corporation tax rate of 30% (2011: 30%)	**289**	211
Effect of tax rates in foreign jurisdictions	**(1)**	-
Increase in income tax expense due to:		
Non-assessable income	**(9)**	-
Non-deductible expenses	**17**	15
Imputation gross-up on dividends received	**2**	11
Statutory funds	**(10)**	10
Income tax offsets and credits	**(9)**	(37)
Amortisation of acquisition intangible assets	**7**	7
Other items	**(20)**	7
	266	224
(Over) under provision in prior financial years	**(31)**	21
Income tax expense on profit before tax	**235**	245
Income tax expense recognised in profit consists of:		
Current tax expense		
Current year	**243**	337
Adjustments for prior financial years	**(26)**	(25)
	217	312
Deferred tax expense		
Origination and reversal of temporary differences	**18**	(67)
Total income tax expense	**235**	245

Income tax of Life companies

Income tax expense includes an expense of $80 million (2011: $73 million) attributable to the Life companies' statutory funds.

Australia

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

	2012	2011
	%	%
Applicable tax rates for classes of business		
Complying superannuation business [1]	**15**	15
Ordinary class of business	**30**	30
Shareholder funds	**30**	30

Note

1 Includes Virtual Pooled Superannuation Trust (VPST).

New Zealand

In New Zealand, a corporate tax rate of 28% (2011: 30%) applies for all classes of business.

11.2. Current tax liabilities

CONSOLIDATED	2012	2011	2012	2011
	Current tax receivable[1]		Current tax liability	
	$m	$m	$m	$m
Current tax receivable (liability) relating to:				
Australian tax consolidated group	**-**	-	**(50)**	(144)
Entities outside of the Australian tax consolidated group:				
New Zealand subsidiaries	**11**	9	**-**	-
Other	**-**	-	**(1)**	(1)
Balance at the end of the financial year	**11**	9	**(51)**	(145)

Note

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

11.3. Deferred tax assets and liabilities

11.3.1. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

CONSOLIDATED	2012	2011	2012	2011	2012	2011
	Deferred tax assets		Deferred tax liabilities		Net	
	$m	$m	$m	$m	$m	$m
Property, plant and equipment	**26**	23	**-**	-	**26**	23
Intangible assets	**1**	-	**(178)**	(206)	**(177)**	(206)
Employee benefits	**67**	55	**-**	-	**67**	55
Provisions	**292**	289	**-**	(2)	**292**	287
Other items	**87**	85	**(114)**	(96)	**(27)**	(11)
Tax assets (liabilities)	**473**	452	**(292)**	(304)	**181**	148
Set-off of tax	**(292)**	(304)	**292**	304	**-**	-
Net tax assets	**181**	148	**-**	-	**181**	148

Movement in deferred tax balances during the financial year:

CONSOLIDATED	2012	2011	2012	2011
	Deferred tax assets		Deferred tax liabilities	
	$m	$m	$m	$m
Balance at the beginning of the financial year	**452**	447	**(304)**	(346)
(Charged) credited to profit or loss	**(26)**	27	**8**	40
Credited (charged) to equity	**42**	(23)	**11**	2
Reclassification	**5**	-	**(5)**	-
Acquisition (disposal) of subsidiaries	**-**	1	**(2)**	-
Balance at the end of the financial year	**473**	452	**(292)**	(304)

There are no unrecognised deferred tax assets and liabilities.

11.3.2. Deferred tax recognised directly in equity

CONSOLIDATED	2012	2011
	$m	$m
Deferred tax recognised directly in equity		
Relating to cash flow hedges	**(20)**	15
Relating to available-for-sale financial assets	**(18)**	9
Relating to actuarial losses on defined benefit plans	**(15)**	-
Relating to other items	**-**	(3)
	(53)	21

11.4. Tax consolidation

The Company is the head company of a tax consolidated group comprising of all Australian wholly-owned entities within the Suncorp Group. In the opinion of the directors, this limits the joint and several liability of the wholly-owned subsidiaries in the case of default by the head company of the tax consolidated group. Under the tax funding agreement, the wholly-owned entities fully compensate the Company for any current tax payable assumed.

12. Share-based payments

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

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

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

12.1. Executive performance share plan

12.1.1. EPSP performance criteria

<table>
<tr><th>Grant date</th><th>1 October 2006 – 3 May 2010</th><th>From 1 October 2010</th></tr>
<tr><td>Performance criteria</td><td colspan="2">The criteria is based on total shareholder returns (TSR) achieved by the Company over a performance period compared to the TSR of a comparator group.</td></tr>
<tr><td>Comparator group</td><td>Top 50 Industrial companies in the S&P/ASX 100, excluding listed property trusts.</td><td>Top 50 Industrial companies in the S&P/ASX 100, excluding mining companies and listed property trusts.</td></tr>
<tr><td>Performance results and vesting rules</td><td colspan="2">Shares granted under this plan will vest and are allocated based on the Company's TSR performance results:
<table>
<tr><th>Company performance (TSR percentile ranking)</th><th>% of shares available for vesting</th></tr>
<tr><td>< 50th percentile</td><td>Nil</td></tr>
<tr><td>50th percentile</td><td>50%</td></tr>
<tr><td>> 50th but < 75th percentile</td><td>an additional 2% of the shares will vest for each 1% increase (on a straight line basis) in the Company's TSR ranking above the 50th percentile</td></tr>
<tr><td>75th percentile or above</td><td>100%</td></tr>
</table>
</td></tr>
<tr><td>Initial performance period</td><td colspan="2">The initial performance period commences on the grant date and ends on the initial vesting date which is generally three years after the grant date.</td></tr>
<tr><td>At initial vesting date</td><td>The executive has the right to elect to receive an allocation of shares, based on the performance result described above, or extend the performance period a further two years. If the executive elects to accept the year three performance result, any shares subject to that same offer that are not allocated are forfeited.</td><td>Shares are vested and allocated based on the performance result described above. Any shares offered that are not allocated are forfeited. No extension of performance period is permitted.</td></tr>
<tr><td>During the extended performance period (Period from the initial vesting date to the end of the extended performance period (generally at the end of year five))</td><td>Performance measurements are undertaken during the extended performance period on a six monthly basis. Executives electing to extend the performance period waive their right to make any further election in regard to acceptance of a performance result (and therefore cannot have shares allocated) until the end of year five. The executives' entitlement to an allocation of shares at the end of year five will be based on the highest performance measurement result recorded at any of the prescribed performance measurement points over the extended performance period. Shares not allocated at the end of the extended performance period are forfeited.</td><td>Not applicable</td></tr>
</table>

12.1.2. Shares granted under the EPSP

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

Inputs into the model include expected volatility which is based on the historic volatility of the Company's share price and a risk-free interest rate based on Australian Government bonds.

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

							2012	2011
		Inputs for measurement of grant date fair value					Number of	Number of
	Fair value at	Share	Expected	Vesting	Dividend	Risk-free	shares	shares
Grant date	grant date	price	volatility	period	yield	interest rate	unvested	unvested
1 October 2006	$12.41	$21.94	17%	3 years	4.9%	5.80%	**-**	337,813
1 April 2007	$11.41	$20.80	19%	2.5 years	5.0%	6.20%	**-**	165,371
17 April 2007	$7.79	$20.57	19%	3 years	n/a	6.00%	**-**	11,138
1 October 2007	$14.60	$20.35	19%	5 years	5.1%	6.44%	**756,619**	776,615
1 October 2008	$4.32	$9.61	31%	3 years	7.2%	5.24%	**1,495,123**	1,530,320
1 October 2009	$6.34	$8.82	47%	3 years	5.6%	5.17%	**1,687,163**	1,758,515
1 October 2009	$6.56	$8.82	47%	4 years	5.6%	5.17%	**300,000**	300,000
1 October 2009	$6.75	$8.82	47%	5 years	5.6%	5.17%	**300,000**	300,000
3 May 2010	$5.94	$9.11	34%	3 years	4.6%	5.35%	**313,016**	313,016
1 October 2010	$5.31	$8.77	29%	3 years	4.1%	4.87%	**1,584,788**	1,672,413
8 June 2011	$4.13	$8.09	22%	2.3 years	4.1%	4.87%	**95,403**	108,062
1 October 2011	$5.27	$7.98	27%	3 years	4.2%	3.62%	**1,164,193**	-
							7,696,305	7,273,263

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

	2012	2011
	Number of shares	Number of shares
Outstanding at the beginning of the financial year	**7,273,263**	6,018,557
Granted during the financial year	**1,181,135**	1,862,432
Vested and allocated during the financial year	**(17,671)**	(34,899)
Forfeited during the financial year	**(740,422)**	(572,827)
Outstanding at the end of the financial year	**7,696,305**	7,273,263

12.2. Other share plans

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

CONSOLIDATED	2012	2011
Total number of shares acquired through DESP and NEDSP	**222,188**	179,606
Fair value	**$1,748 thousand**	$1,559 thousand
Amounts received from employees and non-executive directors	**$1,748 thousand**	$1,559 thousand

The Suncorp Group granted to each eligible employee ordinary shares of the Company to the value of $750 (2011: $500) under the EESP for the financial year. These shares are acquired on-market for allocation to employees by the share plan in October 2012 (2011: October 2011).

13. Defined benefit fund obligations

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

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

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

The Suncorp Group intends to contribute $3 million to the defined benefit funds in the financial year ending 30 June 2013 in line with the actuaries' latest recommendations.

CONSOLIDATED	2012			2011		
	Surplus $m	(Deficit) $m	Net Surplus (Deficit) $m	Surplus $m	(Deficit) $m	Net Surplus (Deficit) $m
Defined benefit funds						
Australia						
Suncorp Defined Benefit Fund	**-**	**(16)**	**(16)**	2	-	2
AAMI Staff Superannuation Fund	**-**	**-**	**-**	1	-	1
New Zealand						
Vero and Asteron New Zealand Staff Pension Scheme	**-**	**(32)**	**(32)**	-	(19)	(19)
RIG Superannuation Fund	**-**	**(5)**	**(5)**	-	(4)	(4)
Commercial Union General Insurance Staff Pension Scheme	**-**	**(2)**	**(2)**	-	(1)	(1)
Guardian Assurance Superannuation Fund	**-**	**(4)**	**(4)**	1	-	1
Total (deficit) surplus	**-**	**(59)**	**(59)**	4	(24)	(20)

13.1. Principal actuarial assumptions and employer contributions

CONSOLIDATED	2012	2011	2012	2011
	Australia		New Zealand	
	%	%	%	%
Employer contribution rate [1]	**16.9**	14.9	**0-20**	0-20
Discount rate at 30 June	**3.0**	5.0	**2.5**	3.7
Expected return on fund assets at 30 June [2]	**6.9**	6.9	**5.7**	5.7
Future salary increases	**4.0**	4.0	**3.5**	4.0

Note

1 Not all funds are contributing for members as recommended in the Actuarial Review. The Actuarial Review is completed under the actuarial standards issued by the New Zealand Society of Actuaries Practice Standard PS2 and is different to the basis of valuation required under the Australian Accounting Standards.

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

13.2. Historic summary

CONSOLIDATED	2012	2011	2010	2009	2008
	$m	$m	$m	$m	$m
Present value of defined benefit obligations	**(185)**	(160)	(167)	(169)	(192)
Fair value of assets held by the funds	**140**	149	159	154	198
(Deficit) surplus	**(45)**	(11)	(8)	(15)	6
Experience (losses) gains arising on fund liabilities	**(2)**	(2)	-	4	(11)
Experience (losses) gains arising on fund assets	**(12)**	-	11	(35)	(30)

13.3. Current financial summary

CONSOLIDATED	Note	2012	2011
		$m	$m
Fair value of fund assets		**140**	149
Present value of defined benefit (DB) obligations – funded		**-**	(93)
Present value of defined benefit (DB) obligations – partly funded		**(185)**	(67)
Adjustment for contributions tax		**(14)**	(9)
Net liability recognised in the statement of financial position		**(59)**	(20)
Consisting of:			
Fund surplus recognised in Other assets	17	**-**	4
Fund deficit recognised in Payables and other liabilities	19	**(59)**	(24)
		(59)	(20)

CONSOLIDATED	2012	2011	2012	2011
	Fair value of fund assets		Present value of DB obligations	
	$m	$m	$m	$m
Reconciliation of movements				
Balance at the beginning of the financial year	**149**	159	**(160)**	(167)
Benefits paid	**(18)**	(20)	**18**	20
Contributions	**10**	5	**-**	-
Expected return on fund assets recognised in profit or loss	**9**	10	**-**	-
Current service and interest costs recognised in profit or loss	**-**	-	**(11)**	(10)
Actuarial (losses) recognised in other comprehensive income	**(12)**	(2)	**(30)**	(9)
Foreign currency exchange movement	**2**	(3)	**(2)**	6
Balance at the end of the financial year	**140**	149	**(185)**	(160)

CONSOLIDATED	2012	2011
	$m	$m
Expected return on fund assets, current service and interest costs are recognised in profit or loss and included in the statement of comprehensive income as		
Other income	**1**	2
Operating expense	**(3)**	(2)
Actuarial losses on defined benefit plans	**(2)**	-
Recognised in other comprehensive income		
Actuarial losses	**42**	11
Contributions tax	**9**	-
	51	11
Cumulative actuarial losses recognised in other comprehensive income	**62**	11
Actual return on fund assets	**(4)**	(1)
	%	%
Major categories of funds assets as a percentage of total fund assets:		
Cash and Fixed Income	**39**	37
Equities	**54**	56
Property	**2**	2
Other	**5**	5

14. Derivatives

CONSOLIDATED	2012			2011		
	Notional value $m	Fair value Asset $m	Fair value Liability $m	Notional value $m	Fair value Asset $m	Fair value Liability $m
Exchange rate-related contracts						
Forward foreign exchange contracts	**5,126**	**24**	**(81)**	5,377	22	(58)
Cross currency swaps	**6,688**	**-**	**(1,822)**	9,144	-	(2,306)
Currency options	**17**	**-**	**-**	27	-	-
	11,831	**24**	**(1,903)**	14,548	22	(2,364)
Interest rate-related contracts						
Forward rate agreements	**100**	**-**	**-**	1,000	-	-
Interest rate swaps	**63,407**	**364**	**(502)**	47,116	141	(213)
Interest rate swaptions	**-**	**-**	**-**	384	1	(1)
Interest rate futures	**3,456**	**4**	**(1)**	4,103	2	(1)
Interest rate options	**239**	**-**	**-**	268	-	(1)
	67,202	**368**	**(503)**	52,871	144	(216)
Equity contracts						
Equity futures	**146**	**1**	**-**	26	-	-
Total derivative exposures – current	**79,179**	**393**	**(2,406)**	67,445	166	(2,580)

A description of how the Suncorp Group uses derivatives can be found in note 35.7.

15. Investment securities

15.1. Corporate – Investment securities

CORPORATE	2012 $m	2011 $m
Financial assets at fair value through profit or loss		
Interest-bearing securities	**377**	571
Unit trusts	**228**	-
Investments at cost		
Shares in subsidiaries	**13,527**	13,253
Total investment securities	**14,132**	13,824
Current	**605**	571
Non-current	**13,527**	13,253
Total investment securities	**14,132**	13,824

15.2. Consolidated – Investment securities

CONSOLIDATED	2012	2011
	$m	$m
Financial assets at fair value through profit or loss		
Interest-bearing securities	**14,697**	14,172
Equity securities	**2,176**	1,327
Property trusts	**220**	292
Unit trusts	**1,472**	2,419
Other	**22**	73
	18,587	18,283
Available-for-sale financial assets		
Interest-bearing securities	**2,522**	5,731
Held-to-maturity investments		
Interest-bearing securities	**3,772**	-
Total investment securities	**24,881**	24,014
Current	**18,587**	18,484
Non-current	**6,294**	5,530
Total investment securities	**24,881**	24,014

During the financial year ended 30 June 2012, $2,967 million (2011: $nil) of available-for-sale financial assets were reclassified to held-to-maturity investments as a result of change in intention to hold these investments to maturity.

16. Property, plant and equipment

CONSOLIDATED	2012				2011			
	Land & buildings	Leasehold Improve-ments	Plant & Equipment	Total	Land & buildings	Leasehold Improve-ments	Plant & Equipment	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Gross carrying amount	**7**	**291**	**528**	**826**	122	302	552	976
Less: accumulated depreciation and impairment losses	**(4)**	**(191)**	**(415)**	**(610)**	(22)	(197)	(406)	(625)
Balance at the end of the financial year	**3**	**100**	**113**	**216**	100	105	146	351
Movements								
Balance at the beginning of the financial year	**100**	**105**	**146**	**351**	100	112	146	358
Additions	**-**	**1**	**59**	**60**	1	5	99	105
Disposals/write-offs	**(96)**	**(5)**	**(9)**	**(110)**	-	(1)	(15)	(16)
Depreciation	**(1)**	**(26)**	**(57)**	**(84)**	(1)	(31)	(61)	(93)
Transfers between classes	**-**	**25**	**(25)**	**-**	-	20	(20)	-
Foreign currency exchange movement	**-**	**-**	**(1)**	**(1)**	-	-	(3)	(3)
Balance at the end of the financial year	**3**	**100**	**113**	**216**	100	105	146	351

As at 30 June 2011, $33 million of property, plant and equipment relating to the Suncorp Centre was classified as held for sale. This property was sold during the financial year ended 30 June 2012 as part of the Brisbane real estate consolidation project, resulting in a gain on disposal before tax of $29 million. The property was included in the Corporate operating segment.

The Suncorp Group also sold its investment in the joint venture asset, Polaris Data Centre, during the financial year ended 30 June 2012. Land and buildings of $69 million was derecognised, resulting in a gain on disposal before tax of $34 million. The joint venture asset was included in the Banking operating segment.

The gain on disposal of the Suncorp Centre and the Polaris Data Centre joint venture asset are included in the consolidated statement of comprehensive income category of ‘other income’.

17. Other assets

CONSOLIDATED	Note	2012	2011
		$m	$m
Accrued income		**253**	309
Investment property carried at fair value	17.1	**127**	137
Investments in associates and joint venture entities	17.2	**61**	60
Development property	17.3	**36**	37
Surplus on defined benefit funds	13	**-**	4
Other assets		**254**	139
Total other assets		**731**	686
Current		**507**	417
Non-current		**224**	269
Total other assets		**731**	686

17.1. Investment property

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

An investment property with fair value of $31 million was classified as held for sale as at 30 June 2012 and was subsequently sold on 13 August 2012. The fair value is represented by the purchase price specified in the sales contract, and a decrease in the fair value of investment property of $1 million was recognised in profit or loss. The investment property was included in the General Insurance business area.

Valuations for investment properties not classified as held for sale are based on independent assessments made by a member of the Australian Property Institute. A $10 million decrease (2011: $7 million decrease) in the fair value of investment property was recognised in the profit or loss.

The Suncorp Group has entered into lease securitisation and defeasance transactions under which the Suncorp Group has agreed not to sell or create a charge over investment properties with a fair value of $96 million (2011: $105 million) without the consent of the other parties to the transaction.

17.2. Investment in associates and joint venture entities

CONSOLIDATED	2012	2011	2012	2011
	Associates		Joint venture entities	
	$m	$m	$m	$m
Summary of financial information of equity accounted investees				
Total assets	**2**	4	**99**	94
Total liabilities	**-**	-	**58**	60
Revenues	**-**	6	**139**	125
Expenses	**-**	6	**125**	118
Share of net profit recognised	**-**	-	**7**	4

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

17.3. Investment in joint venture operations and assets

CONSOLIDATED		2012	2011
		Ownership interest	
	Principal activity	%	%
Joint venture operations			
National Transport Insurance	Facilitation of insurance arrangements	**50**	50
Joint venture assets			
Polaris Data Centre	Property investment	**-**	50
Spring farm residential development	Property development	**50**	50

The Suncorp Group has sold its investment in the Polaris Data Centre joint venture asset during the financial year ended 30 June 2012. Details of the disposal can be found in note 16.

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

CONSOLIDATED	2012	2011
	$m	$m
Other assets – development property	**36**	37
Property, plant and equipment	**-**	69
Total joint venture assets	**36**	106

Suncorp Group's joint venture partner for the Spring farm residential development has a drawdown facility and the development property is pledged as security. Suncorp Group is a guarantor for this drawdown facility and has a contingent liability limited to its interest in the joint venture asset (2011: $nil).

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

18. Goodwill and intangible assets

CONSOLIDATED	Goodwill $m	Brands $m	Customer contracts & other relationships $m	Outstanding claims liability intangible $m	Software $m	Total $m
2012						
Gross carrying amount	**5,302**	**655**	**1,247**	**187**	**631**	**8,022**
Less: accumulated amortisation and impairment losses	**(266)**	**(138)**	**(708)**	**(134)**	**(512)**	**(1,758)**
Balance at the end of the financial year	**5,036**	**517**	**539**	**53**	**119**	**6,264**
Movements in intangible assets						
Balance at the beginning of the financial year	**5,006**	**539**	**614**	**65**	**86**	**6,310**
Acquisitions	**31**	**2**	**8**	**-**	**81**	**122**
Amortisation	**-**	**(24)**	**(83)**	**(12)**	**(48)**	**(167)**
Foreign currency exchange movement	**2**	**-**	**-**	**-**	**-**	**2**
Impairment	**(3)**	**-**	**-**	**-**	**-**	**(3)**
Balance at the end of the financial year	**5,036**	**517**	**539**	**53**	**119**	**6,264**
Maximum remaining useful life	**Indefinite**	**45 years**	**25 years**	**15 years**	**7 years**	
2011						
Gross carrying amount	5,266	653	1,239	187	563	7,908
Less: accumulated amortisation and impairment losses	(260)	(114)	(625)	(122)	(477)	(1,598)
Balance at the end of the financial year	5,006	539	614	65	86	6,310
Movements in intangible assets						
Balance at the beginning of the financial year	5,147	568	736	83	93	6,627
Acquisitions	10	-	-	-	48	58
Amortisation	-	(24)	(96)	(18)	(49)	(187)
Foreign currency exchange movement	(8)	-	-	-	-	(8)
Disposals	(143)	(5)	(26)	-	(6)	(180)
Balance at the end of the financial year	5,006	539	614	65	86	6,310
Maximum remaining useful life	Indefinite	46 years	26 years	16 years	5 years	

All intangible assets except goodwill have finite useful lives.

18.1. Impairment tests for cash-generating units containing goodwill

For the purpose of the annual impairment test, goodwill is allocated to significant cash-generating units (CGU) which represent the Suncorp Group's operating segments. The carrying amount of goodwill allocated to each CGU is then compared to its recoverable amount. The accounting policy relating to impairment testing for CGU containing goodwill is included in note 34.1.16(b).

CONSOLIDATED	2012	2011
	$m	$m
The following CGUs have significant carrying amounts of goodwill		
General Insurance –		
Commercial Insurance	**1,790**	1,759
Personal Insurance	**2,377**	2,377
New Zealand	**243**	241
Life	**372**	372
Banking	**254**	257
	5,036	5,006

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

(a) Value in use for each General Insurance and Bank CGUs

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

- Post-tax cash flows projected from the financial forecasts prepared by the business units covering a five-year period from 1 July 2012 (2011: five-year period from 1 July 2011). Cash flows beyond the next five-years (2011: five-years) are extrapolated using a constant growth rate of 3.0% (2011: 3.0%), which does not exceed the long-term average growth rate for the industry.
- Post-tax discount rates ranging from 9.3% to 11.7% (2011: 9.6% to 11.7%), representing each CGU's cost of capital based on a weighted average of risk-based capital. This is equivalent to 12.4% to 15.5% (2011: 12.6% to 15.6%) on a pre-tax basis.

The following table summarises the key assumptions used in the value in use calculations. For each assumption by CGU, the trigger point denotes when the carrying value of the respective CGU would exceed its recoverable amount while holding all other variables, including the carrying value of the CGU, constant.

GENERAL INSURANCE AND BANK CGUS	Discount rate		Terminal growth rate		Return on GI Technical Reserves		Return on GI Shareholder Funds		Average growth in net earned premium	
	Assumed	Trigger point	Assumed	Trigger point	Assumed	Trigger point	Assumed	Trigger point	Assumed	Trigger point
	%	%	%	%	%	%	%	%	%	%
2012										
General Insurance -										
Commercial Insurance	**9.3**	**9.8**	**3.0**	**2.2**	**3.4**	**2.8**	**8.0**	**6.4**	**6.1**	**4.9**
Personal Insurance	**9.3**	**15.5**	**3.0**	**<0**	**3.4**	**<0**	**8.0**	**<0**	**3.2**	**<0**
New Zealand	**9.4**	**10.0**	**3.0**	**2.1**	**3.3**	**2.0**	**5.3**	**4.0**	**6.9**	**5.7**
Banking	**11.7**	**14.8**	**3.0**	**<0**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
2011										
General Insurance -										
Commercial Insurance	9.6	12.1	3.0	< 0	6.4	2.6	6.6	< 0	6.2	< 0
Personal Insurance	9.6	13.3	3.0	< 0	6.4	< 0	6.6	< 0	5.3	< 0
Vero New Zealand	9.6	10.8	3.0	1.2	5.5	1.2	6.0	2.3	5.5	< 0
Banking	11.7	13.0	3.0	1.1	n/a	n/a	n/a	n/a	n/a	n/a

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

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

(b) Life CGU

The recoverable amount of the Life CGU has been determined by reference to an appraisal value which comprises the traditional embedded value of the Life portfolios and other relevant businesses and adds a component for the value of future new business. The embedded value of the Life companies and the value of one year's new business were assessed as at 30 June 2012 using discounted cash flow techniques. The value of the businesses other than the Life companies within the Life CGU was also assessed as at 30 June 2012. Key assumptions in the value in use calculations include the risk-adjusted discount rates and the multiple applied to the value of one-year's sales.

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

LIFE CGU	2012		2011	
	Australia	New Zealand	Australia	New Zealand
	%	%	%	%
Investment return for underlying asset classes				
Risk-free rate (at 10 years)	**3.1**	**3.4**	5.3	5.1
Cash	**4.0**	**3.9**	6.0	5.3
Fixed interest	**4.1**	**4.0**	6.1	5.7
Australian equities (includes allowance for franking credits)	**8.2**	**8.0**	10.4	9.8
International equities	**7.2**	**7.0**	9.4	8.8
Property	**5.6**	**6.0**	7.8	7.8
Investment returns (net of tax)	**2.9**	**3.2**	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	**7.1**	**7.4**	9.3	9.1

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

The following key assumption changes would result in the carrying value of the Life CGU exceeding the recoverable amount (appraisal value) while holding all other variables, including the carrying value, constant:

- an increase in interest rates by 80 basis points (2011: 80 basis points) (impacts the discount rate and investment returns assumptions)
- an increase in the discontinuance rates assumptions by 5.6% (2011: 3.5%); or
- an increase in claims expense assumptions by 6.4% (2011: 2.5%).

19. Payables and other liabilities

CONSOLIDATED	Note	2012	2011
		$m	$m
Accrued interest payable		**500**	512
Amounts due to reinsurers		**857**	659
Trade creditors and accrued expenses		**613**	612
Investment settlements		**160**	8
Excess of defined benefit obligations over plan assets	13	**59**	24
Employee benefits and related on-costs liabilities		**316**	278
Other liabilities		**97**	131
Total payables and other liabilities		**2,602**	2,224
Current		**2,362**	2,065
Non-current		**240**	159
Total payables and other liabilities		**2,602**	2,224

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

CONSOLIDATED	2012	2011
Weighted average rate of increases in annual employee benefits to settlement of the liabilities	**3.5%**	3.5%
Weighted average discount rate	**2.53% – 2.55%**	4.88% – 4.93%
Weighted average term to settlement of liabilities	**2 – 4 years**	3 – 4 years

20. Subordinated notes

CONSOLIDATED	Note	2012	2011
		$m	$m
General Insurance subordinated notes	6.7	**708**	678
Banking subordinated notes	7.9	**666**	846
		1,374	1,524

21. Share capital

CONSOLIDATED	Issued capital $m	Share-based payments $m	Treasury shares $m	Total share capital $m
Balance as at 30 June 2010	12,675	53	(110)	12,618
Shares issued	42	-	-	42
Share-based payments	-	11	-	11
Treasury share movements	-	-	(9)	(9)
Balance as at 30 June 2011	**12,717**	**64**	**(119)**	**12,662**
Shares issued	**-**	**-**	**-**	**-**
Share-based payments	**-**	**11**	**-**	**11**
Treasury share movements	**-**	**-**	**(1)**	**(1)**
Balance as at 30 June 2012	**12,717**	**75**	**(120)**	**12,672**

Ordinary shares

Reconciliation of number of ordinary shares on issue:

CONSOLIDATED	2012	2011
	Number	Number
Balance at the beginning of the financial year	**1,286,600,980**	1,281,390,524
Issued under the dividend reinvestment plan for:		
Interim dividend allotted at $8.05 (2011: $8.06) per share	**-**	5,210,456
Balance at the end of the financial year	**1,286,600,980**	1,286,600,980

Under the Dividend Reinvestment Plan, 5,287,890 ordinary shares were allotted on 2 April 2012 for the 2012 interim dividend; 5,594,173 ordinary shares were allotted on 3 October 2011 for the 2011 final dividend; and 5,944,385 ordinary shares were allotted on 1 October 2010 for the 2010 final dividend. Shares for these allotments were acquired on market for delivery to shareholders and resulted in no issue of new shares.

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

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

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

Dividend reinvestment plan

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

Share-based payments

Share-based payments represent the cumulative expense and other adjustments recognised in share capital relating to equity-settled share-based payment transactions.

22. Reserves

CONSOLIDATED	Note	Equity reserve for credit losses $m	Hedging reserve $m	Assets available-for-sale reserve $m	Foreign currency translation reserve $m	Total reserves $m
Balance as at 30 June 2010		226	(106)	15	(61)	74
Transfer to retained profits		(69)	-	-	-	(69)
Amount recognised in equity		-	46	50	-	96
Amount transfered from equity to profit or loss		-	14	(19)	-	(5)
Income tax	11.3.2	-	(15)	(9)	-	(24)
Exchange differences on translation of foreign operations		-	-	-	(39)	(39)
Balance as at 30 June 2011		**157**	**(61)**	**37**	**(100)**	**33**
Transfer to retained profits		**(10)**	**-**	**-**	**-**	**(10)**
Amount recognised in equity		**-**	**(61)**	**(53)**	**-**	**(114)**
Amount transfered from equity to profit or loss		**-**	**(5)**	**(7)**	**-**	**(12)**
Income tax	11.3.2	**-**	**20**	**18**	**-**	**38**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**10**	**10**
Balance as at 30 June 2012		**147**	**(107)**	**(5)**	**(90)**	**(55)**

Equity reserve for credit losses

The equity reserve for credit losses is a reserve created from retained earnings to cover the difference between the Bank's term expected loss and the collective provision raised.

Hedging reserve

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

Assets available-for-sale reserve

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

Foreign currency translation reserve

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

23. Group capital management

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

The Suncorp Group's capital policy is to hold additional capital above operating targets in Suncorp Group Limited, being the ultimate parent entity of the Suncorp Group. Capital policy is reviewed regularly and where appropriate, adjustments are made to internal capital targets to reflect changes in economic conditions and risk characteristics of the Suncorp Group's activities. The Suncorp Group's capital position is monitored on a continuous basis.

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

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

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

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

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

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

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

23. Group capital management (continued)

AS AT 30 JUNE 2012	General Insurance $m	Banking[5] $m	Life $m	Corporate and Consolidation $m	Group[6] $m
Tier 1					
Ordinary share capital	-	-	-	12,717	12,717
Subsidiary share capital	7,812	3,412	2,299	(13,523)	-
Reserves and non-controlling interests	(66)	(987)	246	737	(70)
Retained profits [1]	(174)	518	140	580	1,064
Preference shares	-	765	-	-	765
Insurance liabilities in excess of liability valuation	551	-	-	-	551
Less:					
Goodwill and brands	(5,213)	(262)	(671)	-	(6,146)
Software assets	(4)	(3)	-	(114)	(121)
Other intangible assets	-	(75)	-	-	(75)
Deferred tax asset	-	(159)	-	61	(98)
Other required deductions [2]	(1)	(8)	-	10	1
Total Tier 1 capital	2,905	3,201	2,014	468	8,588
Tier 2					
APRA general reserve for credit losses	-	221	-	-	221
Subordinated notes	764	784	-	-	1,548
Total Tier 2 capital	764	1,005	-	-	1,769
Total capital base	3,669	4,206	2,014	468	10,357
Represented by:					
Capital in regulated entities	3,648	4,179	2,010	-	9,837
Capital in unregulated entities [3]	21	27	4	468	520
	3,669	4,206	2,014	468	10,357
Target capital base [4]	3,301	4,131	1,952	181	9,565

Notes

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 requires 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 includes funding transactions of capital nature.

3 Capital in unregulated entities includes capital in authorised non-operating holding companies.

4 APRA requires entities to have internal capital targets.

5 Amounts disclosed represent the business area. They do not align with the regulatory reporting group used in the Banking capital adequacy.

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

23. Group capital management (continued)

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

Notes

1 Eliminated upon consolidation.

2 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 requires 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.

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

4 APRA requires entities to have internal capital targets.

5 Amounts disclosed represent the business area. They do not align with the regulatory reporting group used in the Banking capital adequacy.

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

24. Notes to the consolidated statement of cash flows

24.1. Reconciliation of cash flows from operating activities

CONSOLIDATED	2012	2011
	$m	$m
Profit for the financial year	**728**	457
Non-cash items		
Amortisation of share-based payments	**11**	10
Change in fair value of trading securities	**(49)**	3
Change in fair value of investments securities	**(304)**	(217)
Change in fair value of investment property	**10**	7
Change in fair value of subordinated debt	**7**	(20)
Write-off for liability adequacy test deficiency	**21**	35
Impairment losses on loans, advances and other receivables	**405**	325
Depreciation and amortisation	**251**	280
Loss on disposal of subsidiaries	**-**	105
(Profit) loss on disposal of property, plant and equipment	**(69)**	3
Share of profits of associates and joint ventures	**(7)**	(4)
Dividends received from associates and joint ventures	**5**	2
Change in assets and liabilities		
Net movement in tax balances	**(76)**	69
Decrease (increase) in other assets	**266**	(3,635)
Decrease in trading securities	**216**	3,278
(Increase) decrease in Banking loans, advances and other receivables	**(920)**	2,194
Increase in deposits and short-term borrowings	**1,850**	4,760
Increase in payables and other liabilities	**328**	75
(Decrease) increase in General Insurance and Life liabilities	**(393)**	3,327
Net cash from operating activities	**2,280**	11,054

24.2. Reconciliation of cash and cash equivalents to the consolidated statement of cash flows

CONSOLIDATED	2012	2011
	$m	$m
Cash and cash equivalents at the end of the financial year in the statement of cash flows is represented by:		
Cash and cash equivalents	**866**	1,271
Receivables due from other banks	**154**	226
Payables due to other banks	**(41)**	(31)
	979	1,466

24.3. Financing arrangements

CONSOLIDATED	2012		2011	
	Program limit $m	Unused $m	Program limit $m	Unused $m
The Suncorp Group had the following debt programs outstanding at end of the financial year:				
USD $5 billion covered bond program	**4,914**	**3,314**	-	-
USD $15 billion program	**14,743**	**9,245**	13,968	7,141
USD $5 billion program	**4,914**	**2,509**	4,656	2,561
US144a MTN program	**14,743**	**12,618**	13,968	11,844
AUD TCD program	**5,000**	**1,180**	5,000	180
	44,314	**28,866**	37,592	21,726

25. Fair values of financial instruments

25.1. Comparison of fair value to carrying amounts

The following financial assets and liabilities are recognised and measured at fair value and therefore their carrying value equates to their fair value. The basis for determining their fair values is described in note 25.2.

- financial assets at fair value through profit or loss including trading securities
- available-for-sale financial assets
- certain General Insurance assets and Life assets that are financial assets designated at fair value through profit or loss
- certain short-term offshore borrowings designated as financial liabilities at fair value through profit or loss
- derivatives; and
- managed funds units on issue.

The table below discloses the fair value of financial assets and liabilities that are not recognised and measured at fair value, together with the carrying amounts shown in the consolidated financial statements.

CONSOLIDATED	Note	2012		2011	
		Carrying value $m	Fair value $m	Carrying value $m	Fair value $m
Financial assets					
Cash and cash equivalents		**866**	**866**	1,271	1,271
Receivables due from other banks		**154**	**154**	226	226
Held-to-maturity investments	15.2	**3,772**	**3,757**	-	-
Banking loans, advances and other receivables	7.4	**49,180**	**49,401**	48,639	48,855
General Insurance assets [1]	6.5	**145**	**145**	34	34
Life assets [1]	8.5	**176**	**176**	211	211
Financial liabilities					
Deposits and short-term borrowings [2]	7.6	**36,993**	**36,824**	35,018	35,047
Payables due to other banks		**41**	**41**	31	31
Payables and other liabilities [3]	19	**2,227**	**2,227**	1,922	1,922
Securitisation liabilities	7.7	**3,800**	**3,800**	3,532	3,682
Debt issues	7.8	**9,569**	**9,614**	10,031	10,213
Subordinated notes	20	**1,374**	**1,395**	1,524	1,536
Preference shares	7.10	**762**	**750**	830	850

Notes

1 Only includes General Insurance assets and Life assets that are classified as financial assets at amortised cost.
2 Excludes short-term offshore borrowings designated as financial liabilities at fair value through profit or loss.
3 Only includes components of payables and other liabilities that are classified as financial liabilities.

Significant assumptions and estimates used to determine the fair values:

Financial assets

As cash and cash equivalents and receivables due from other banks are short-term in nature or are receivable on demand, their carrying value approximates their fair value.

Fair value of held-to-maturity securities are determined based on quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used.

The carrying value of Banking loans, advances and other receivables is net of specific and collective provisions for impairment. For variable rate loans, excluding impaired loans, the carrying amount is considered a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models to determine the net present value of the portfolio future principal and interest cash flows, based on the interest rate repricing of the loans. The discount rates applied were based on the rates offered by Banking on current products with similar maturity dates.

For all other financial assets, the carrying value (amortised cost) is considered to be a reasonable estimate of fair value.

25.1. Comparison of fair value to carrying amounts (continued)

Financial liabilities

The carrying value of non-interest-bearing, call and variable rate deposits, and fixed rate deposits repricing within six months approximate their fair value. Discounted cash flow models are used to calculate the fair value of other term deposits based upon deposit type and related maturities. As the payables due to other banks are short-term in nature, their carrying value approximates fair value.

The fair value of debt issues, subordinated notes and preference shares are calculated based on either the quoted market prices at balance date or, where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument.

For all other financial liabilities which are short-term in nature, the carrying value (amortised cost) is considered to be a reasonable estimate of fair value. For longer term liabilities, fair values have been estimated using the rates currently offered by Banking for similar liabilities with similar remaining maturities.

25.2. Fair value hierarchy

Financial assets and liabilities that are recognised and measured at fair value are categorised by a hierarchy which identifies the most significant input used in the valuation methodology:

- Level 1 – derived from quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2 – derived from other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly; or
- Level 3 – fair value measurement is not based on observable market data.

CONSOLIDATED	2012				2011			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets								
Trading securities	**-**	**4,787**	**-**	**4,787**	-	4,952	-	4,952
Investment securities	**4,343**	**16,739**	**27**	**21,109**	3,375	20,601	38	24,014
Derivatives	**5**	**292**	**96**	**393**	3	128	35	166
	4,348	**21,818**	**123**	**26,289**	3,378	25,681	73	29,132
Financial liabilities								
Deposits and short-term borrowings [1]	**-**	**(3,715)**	**-**	**(3,715)**	-	(3,840)	-	(3,840)
Derivatives	**(1)**	**(2,183)**	**(222)**	**(2,406)**	(3)	(2,413)	(164)	(2,580)
Managed funds units on issue	**-**	**-**	**(1)**	**(1)**	(26)	(672)	(3)	(701)
	(1)	**(5,898)**	**(223)**	**(6,122)**	(29)	(6,925)	(167)	(7,121)

Note

1 Only includes short-term offshore borrowings designated as financial liabilities at fair value through profit or loss.

There have been no significant transfers between Level 1 and Level 2 during the 2011 and 2012 financial year. Level 3 investment securities consist of interest-bearing securities and holdings in unlisted unit trusts which have suspended daily redemptions. The valuation methodology used for these Level 3 investment securities is based on the discount rate determined by the relative trading value to face value for interest-bearing securities and the latest available redemption price published by the external manager for the unlisted unit trusts.

Level 3 managed funds on issue consist of a property trust with the significant input being the valuation of property.

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

25.2. Fair value hierarchy (continued)

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

The following table discloses the movements in financial instruments classified as level 3 in the fair value hierarchy:

CONSOLIDATED	2012				2011			
	Asset		Liability		Asset		Liability	
	Investment securities $m	Derivatives $m	Derivatives $m	Managed funds units on issue $m	Investment securities $m	Derivatives $m	Derivatives $m	Managed funds units on issue $m
Balance at the beginning of the financial year	38	35	164	3	67	48	168	3
Total gains or losses included in profit or loss for the financial year[1]:								
Investment revenue	(3)	62	58	(2)	1	(13)	(17)	-
Change in fair value recognised in other comprehensive income	(3)	-	4	-	-	-	13	-
Transfers in	-	-	-	-	4	-	-	-
Transfer out to Level 2	(1)	-	-	-	(4)	-	-	-
Purchases	20	-	-	-	-	-	-	-
Sales	(24)	(1)	(4)	-	(30)	-	-	-
Issues	-	-	-	-	-	-	-	-
Balance at the end of the financial year	27	96	222	1	38	35	164	3

Note

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

26. Transfers of financial assets

The Suncorp Group has entered into repurchase agreements involving the sale of interest-bearing securities in exchange for cash and simultaneously agreeing to buy back the interest-bearing securities at a pre-agreed price on a future date.

In accordance with the agreements, the Suncorp Group retains the rights to cash flows and credit risk associated with the transferred interest-bearing securities. As substantially all the risks and rewards of these interest-bearing securities remain with the Suncorp Group, they continue to be recognised as a financial asset and the obligation to repurchase recognised as a financial liability.

The following table sets out the carrying amount of the transferred interest-bearing securities and the associated liability at the balance date:

CONSOLIDATED	2012	2011
	$m	$m
Carrying amount of transferred interest-bearing securities:		
Trading securities	-	301
Carrying amount of associated financial liability:		
Deposits and short-term borrowings	-	(301)
For those liabilities that have recourse only to the transferred assets:		
Fair value of transferred interest-bearing securities	-	301
Fair value of associated deposit and short-term borrowings	-	(301)
Net position	-	-

27. Parent entity and subsidiaries

27.1. Ultimate parent entity

As the Suncorp Group has applied amendments to the *Corporations Act 2001* that remove the requirement for the Suncorp Group to include parent entity financial statements, financial details of the parent entity are included below.

As the Company was incorporated on 25 August 2010, profit of the Company for the 2011 financial year comparatives are presented for the period from 25 August 2010 to 30 June 2011.

COMPANY	2012 $m	2011 $m
Results of the parent entity		
Profit for the financial year	**724**	534
Total comprehensive income for the financial year	**724**	534
Financial position of parent entity at the end of the financial year		
Current assets	**1,186**	832
Total assets	**14,913**	14,260
Current liabilities	**582**	151
Total liabilities	**582**	151
Total equity of the parent entity consists of:		
Share capital	**12,792**	12,780
Common control reserve	**987**	987
Retained earnings	**552**	342
Total equity	**14,331**	14,109

Capital and expenditure commitments

There are no parent entity capital and expenditure commitments for the acquisition of property, plant and equipment.

Contingent liabilities

The parent entity has provided a written undertaking to a wholly owned subsidary to provide financial support by way of injecting capital of up to $34 million (2011: $34 million) where necessary, subject to the financial condition of the subsidiary.

Parent entity guarantees

There are no parent entity guarantees in relation to the debts of its subsidiaries.

27.2. Material subsidiaries of Suncorp Group Limited

CONSOLIDATED			2012	2011
	Class of	Country of	Equity holding	
Material subsidiaries of Suncorp Group Limited include [1,2]	**shares**	**incorporation**	**%**	**%**
General Insurance				
Suncorp Insurance Holdings Limited	Ordinary	Australia	**100**	100
Suncorp Insurance Services Limited [3]	Ordinary	Australia	**100**	100
Suncorp Group Holdings Pty Limited	Ordinary	Australia	**100**	100
Vero Insurance New Zealand Limited	Ordinary	New Zealand	**100**	100
Vero Insurance Limited [4,5]	Ordinary	Australia	**100**	100
Australian Alliance Insurance Company Limited	Ordinary	Australia	**100**	100
Australian Associated Motor Insurers Limited	Ordinary	Australia	**100**	100
Suncorp Insurance Funding 2007 Limited	Ordinary	Australia	**100**	100
Suncorp Metway Insurance Ltd	Ordinary	Australia	**100**	100
GIO General Limited	Ordinary	Australia	**100**	100
Terri Scheer Insurance Pty Ltd	Ordinary	Australia	**100**	100
Banking				
SBGH Limited	Ordinary	Australia	**100**	100
Suncorp-Metway Limited	Ordinary	Australia	**100**	100
APOLLO Series Trusts (various) [6]	Units	Australia	**100**	100
Suncorp Covered Bond Trust	Units	Australia	**100**	-
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	**100**	100
SME Management Pty Limited	Ordinary	Australia	**100**	100
Life				
Suncorp Life Holdings Limited [4]	Ordinary	Australia	**100**	100
Asteron Life Limited	Ordinary	Australia	**100**	100
Guardian Financial Planning Pty Limited	Ordinary	Australia	**100**	100
Prominvest Pty Limited	Ordinary	Australia	**100**	100
Asteron Life Limited	Ordinary	New Zealand	**100**	100
Suncorp Mortgage Company NZ Limited	Ordinary	New Zealand	**100**	100
SIS Super Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Custodian Services Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Funds Pty Ltd	Ordinary	Australia	**100**	-
Suncorp Life & Superannuation Limited [4]	Ordinary	Australia	**100**	100
Suncorp Portfolio Services Limited	Ordinary	Australia	**100**	100
Corporate				
Suncorp Staff Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Corporate Services Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Group Limited Executive Performance Share Plan Trust	Units	Australia	**100**	100

Notes

1 The indentation of entities represents a summarised legal entity hierarchy of the Suncorp Group as at 30 June 2012.
2 Non-operating and immaterial operating subsidiaries are excluded from the above list.
3 Also registered as an overseas company in New Zealand.
4 The Suncorp Group has nine (2011: none) wholly owned unregistered managed investment schemes. They are consolidated by the Suncorp Group subsidiary, which has control of the managed investment scheme (when the controlling subsidiary is assessed as a separate entity). On consolidation, the non-controlling interest recognised by the controlling subsidiary is eliminated against other subsidiaries' holdings in the managed investment schemes.
5 Vero Insurance Limited (VIL) increased its interest in Australian Surety Corporation Pty Ltd (ASC) from 50.5% interest to 100% interest on 31 March 2011. ASC was a subsidiary of VIL prior to this transaction and remains a subsidiary after this transaction.
6 These trusts are special purpose entities (SPEs) created as part of the Suncorp Group's loan securitisation program. As at 30 June 2012, the Suncorp Group held interests in 10 trusts (2011: 10). Refer to note 34.1.1 for the basis of consolidation.

28. Fiduciary activities

The Suncorp Group conducts fiduciary activities as trustee or custodian for various investment funds and trusts, approved deposit funds, superannuation funds, and wholesale and retail unit trusts. These activities result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not the property of the Suncorp Group and are not included in the consolidated financial statements.

Where subsidiaries, as single responsible entities or trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the subsidiaries will be required to settle them, the liabilities are not included in the consolidated financial statements.

29. Changes in the composition of the Suncorp Group

29.1. Subsidiaries

29.1.1. Acquisitions

The Suncorp Group did not acquire any material subsidiaries during the current or prior financial year.

29.1.2. Disposals

The Suncorp Group did not dispose of any investment in subsidiaries during the financial year ended 30 June 2012. During the prior financial year, the Suncorp Group disposed of the following investment in subsidiaries:

CONSOLIDATED	2011		
	New Zealand Guardian Trust $m	**Tyndall Investment Management New Zealand Limited $m**	**Tyndall Investment Management Limited $m**
Carrying value of assets and liabilities disposed			
Cash and cash equivalents	1	1	14
Other assets	5	2	9
Goodwill and intangible assets	80	4	96
Payables and other liabilities	(1)	(2)	(9)
Total carrying value of assets and liabilities deconsolidated	85	5	110
Reconciliation of cash movement			
Total consideration	32	17	69
Less consideration receivable	(16)	-	(4)
Less cash deconsolidated	(1)	(1)	(14)
Net cash inflow	15	16	51
Profit (loss) on sale before tax	(55)	11	(64)
Disposal date	14 March 2011	1 March 2011	1 March 2011

29.2. Associates and joint venture entities

The Suncorp Group did not acquire nor dispose of any material interests in associates or joint venture entities in the current or prior financial year.

30. Key management personnel disclosures

The Suncorp Group has applied the exemption under AASB 124 *Related Party Disclosures* which exempts listed companies from providing remuneration disclosure in relation to their key management personnel in the notes to the financial statements where this information is disclosed in the Directors' Report. Information regarding key management personnel remuneration and some equity instruments disclosure is included in the Remuneration Report section of the Directors' Report.

30.1. Key management personnel compensation

The key management personnel compensation included in 'Staff expenses' (refer note 10) are as follows:

CONSOLIDATED	2012	2011
	$000	$000
Short-term employee benefits	17,484	16,566
Long-term employee benefits	5,553	3,011
Post-employment benefits	318	1,311
Share-based payments	5,199	4,787
Termination benefits	241	1,318
	28,795	26,993

30.2. Loans to key management personnel and their related parties

Loans to key management personnel and their related parties are secured housing loans and asset lines provided in the ordinary course of the Banking business. All loans have normal commercial terms, which may include staff discounts at the same terms available to all employees of the Suncorp Group. The loans may have offset facilities, in which case the interest charged is after the offset. No amounts have been written down or recorded as provisions, as the balances are considered fully collectable.

Details regarding loans outstanding at the reporting date to key management personnel and their related parties, where the individual's aggregate loan balance exceeded $100,000 at any time during the reporting period, are as follows:

CONSOLIDATED	2012				2011			
	Balance at 1 July 2011 $000	Balance at 30 June 2012 $000	Interest charged during the year $000	Highest balance during the year $000	Balance at 1 July 2010 $000	Balance at 30 June 2011 $000	Interest charged during the year $000	Highest balance during the year $000
Directors								
C Herbert [1,2]	-	-	-	-	-	-	12	344
Senior Executives								
M Milliner	1,355	1,089	75	1,399	1,849	1,355	99	1,897
A Revis	-	1,475	59	3,755	-	-	-	-
J Smith	900	900	54	900	900	900	59	900
R Stribling	-	3,008	8	3,008	-	-	-	-

Notes

1 Interest charged in the above table reflects the amount charged during the period in which individuals were considered key management personnel.

2 Mr Herbert was a director of Suncorp Group Limited for the period from incorporation until 22 December 2010. During this period, the Company was dormant.

New loan facilities made to key management personnel and their related parties during the year were $6,950 thousand (2011: $nil).

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Suncorp Group to key management personnel and their related parties, and the number of individuals in each group, are as follows:

CONSOLIDATED	2012		2011	
	Key management personnel $000	Other related parties $000	Key management personnel $000	Other related parties $000
Opening balance	2,255	-	2,749	-
Closing balance	6,472	-	2,255	-
Interest charged	196	-	170	-
	Number	Number	Number	Number
Number of individuals at 30 June	4	-	2	-

30.3. Movement in shares

Directors and executives of the Company and their related parties received normal distributions on these shares. Details of the directors' shareholdings in the Company at the date of signing this financial report are set out in the Directors' Report.

The movement during the reporting period in the number of ordinary shares in the Company and Suncorp-Metway Limited (prior to the Suncorp Group restructure on 7 January 2011) held, directly, indirectly or beneficially, by each key management personnel, including their related parties, is as follows:

	Balance 1 July 2011		1 July 2011 – 30 June 2012			Balance 30 June 2012	
	Ordinary shares	Performance rights [1]	Received as compensation [2]	Purchases (sales)	Other changes	Ordinary shares	Performance rights [1]
	Number	Number	Number	Number	Number	Number	Number
Directors							
Executive director							
P Snowball	66,123	900,000	-	21,210	-	87,333	900,000
Non-executive directors							
Dr Z Switkowski	201,599	-	-	-	-	201,599	-
I Atlas	-	-	-	6,370	-	6,370	-
W Bartlett	26,968	-	-	-	-	26,968	-
M Cameron [3]	-	-	-	-	-	-	-
P Dwyer [4]	20,000	-	-	-	(20,000)	-	-
A Exel [5]	-	-	-	-	-	-	-
S Grimshaw [6]	24,314	-	-	-	(24,314)	-	-
E Kulk	20,173	-	-	-	-	20,173	-
Dr D McTaggart [3]	-	-	-	(3,922)	3,922	-	-
G Ricketts	23,654	-	-	1,196	-	24,850	-
J Story [7]	138,803	-	-	-	(138,803)	-	-
Senior Executives							
A Day	377	112,063	47,161	19	-	396	159,224
G Dransfield	-	39,078	31,441	-	-	-	70,519
D Foster	25,542	279,936	47,161	-	(23,883)	25,542	303,214
M Milliner	68,026	302,060	49,047	11,543	(33,037)	79,569	318,070
J Nesbitt	-	401,121	52,317	-	-	-	453,438
A Revis	5,093	58,920	33,641	257	-	5,350	92,561
J Smith	116,513	282,339	49,047	618	-	117,131	331,386
R Stribling	10,000	66,079	37,729	-	-	10,000	103,808
G Summerhayes	-	203,801	43,262	-	-	-	247,063

Notes

1 The number of performance rights disclosed for the executive director and senior executives represents performance rights held by the trustee of the EPSP and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles.

2 For the executive director and senior executives, compensation includes shares held under the EPSP. These shares are recorded in the Company's share register in the name of the EPSP trustee and vest only when performance hurdles are met. No shares vested during the 2012 financial year.

3 Appointed 16 April 2012.

4 Left office on 28 February 2012. Shares held upon retirement are shown in 'Other changes'.

5 Appointed 27 June 2012.

6 Left office on 23 August 2011. Shares held upon retirement are shown in 'Other changes'.

7 Left office on 27 October 2011. Shares held upon retirement are shown in 'Other changes'.

30.3 Movement in shares (continued)

	Balance 1 July 2010		1 July 2010 – 30 June 2011			Balance 30 June 2011	
	Ordinary shares	Performance rights [1]	Received as compensation [2]	Purchases (sales)	Other changes	Ordinary shares	Performance rights [1]
	Number	Number	Number	Number	Number	Number	Number
Directors							
Executive director							
P Snowball	66,123	900,000	-	-	-	66,123	900,000
Director							
C Herbert [3]	-	-	19,823	-	(19,823)	-	-
Non-executive directors							
J Story	138,803	-	-	-	-	138,803	-
I Atlas [4]	-	-	-	-	-	-	-
W Bartlett	19,968	-	-	7,000	-	26,968	-
Dr I Blackburne [5]	36,640	-	-	-	(36,640)	-	-
P Dwyer	20,000	-	-	-	-	20,000	-
S Grimshaw	23,350	-	-	964	-	24,314	-
E Kulk	20,173	-	-	-	-	20,173	-
G Ricketts	22,716	-	-	938	-	23,654	-
Dr Z Switkowski	61,599	-	-	140,000	-	201,599	-
Senior Executives							
R Bell [6]	83,999	196,921	71,585	-	(352,505)	-	-
A Day	362	40,478	71,585	15	-	377	112,063
G Dransfield [7]	-	-	-	-	39,078	-	39,078
D Foster	25,542	202,844	77,092	-	-	25,542	279,936
M Milliner	68,026	219,461	82,599	-	-	68,026	302,060
J Nesbitt	-	313,016	88,105	-	-	-	401,121
A Revis [8]	-	-	58,920	5,093	-	5,093	58,920
J Smith	115,962	199,740	82,599	551	-	116,513	282,339
R Stribling	10,000	-	66,079	-	-	10,000	66,079
G Summerhayes	-	134,969	68,832	-	-	-	203,801

Notes

1 The number of performance rights disclosed for executive directors and senior executives represents performance rights held by the trustee of the EPSP and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles.

2 For the executive director and senior executives, compensation includes shares held under the EPSP. These shares are recorded in the Company's share register in the name of the EPSP trustee and vest only when performance hurdles are met. No shares vested during the 2011 financial year.

3 Mr Herbert was a director of Suncorp Group Limited for the period from incorporation until 22 December 2010. During this period, the Company was dormant. Of the 111,529 shares and performance rights held at the date of appointment 94,244 performance rights remained subject to performance hurdles. Of the 131,352 shares and performance rights held on leaving office, 114,067 performance rights remained subject to performance hurdles.

4 Appointed 1 January 2011.

5 Left office on 31 August 2010. Shares held upon retirement are shown in 'Other changes'.

6 Left office on 22 May 2011. Shares and performance rights held upon retirement are shown in 'Other changes'. Of the shares and performance rights held on leaving office, 268,506 performance rights remained subject to performance hurdles.

7 Appointed 23 May 2011.

8 Appointed 16 August 2010.

30.3 Movement in shares (continued)

Movements in the number of Convertible Preference Shares held directly, indirectly or beneficially by each key management personnel, including their related parties, are noted in the table below:

	2012 Number	2011 Number
Senior executives		
D Foster [1]	**90**	90

Notes

1 There were no movements during the 2011 and 2012 financial years.

30.4. Other key management personnel transactions

Financial instrument transactions

Financial instrument transactions (other than loans and shares disclosed within this report) between the Suncorp Group and directors, executives and their related parties during the financial year were in the nature of normal personal banking, investment and deposit transactions. These transactions were on commercial terms and conditions no more favourable than those given to other employees or customers and are trivial or domestic in nature.

Transactions other than financial instrument transactions

No director has entered into a material contract with the Company or the Suncorp Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end. Other transactions with directors, executives and their related parties are conducted on arm's length terms and conditions, and are deemed trivial or domestic in nature. These transactions are in the nature of personal investment, general insurance and life insurance policies.

31. Other related party disclosures

31.1. Identity of related parties

The Suncorp Group has a related party relationship with its associates and joint venture entities (see note 17.2) and its key management personnel (see note 30).

31.2. Related party transactions with associates and joint venture entities

Transactions between the Suncorp Group and associates and joint venture entities consisted of fees received and paid for information technology services, investment management services, overseas management services, property development finance facilities and reinsurance arrangements. All these transactions were on a normal commercial basis.

CONSOLIDATED	2012 $000	2011 $000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:		
Other income received or due and receivable:		
Associates	**19**	57
Joint ventures	**8,310**	9,397
Other expenses paid or due and payable		
Associates	**-**	-
Joint ventures	**5,246**	5,074
Aggregate amounts receivable from, and payable to, each class of related parties at balance date:		
Receivables:		
Associates	**2**	-
Joint ventures	**5,438**	85,030

32. Commitments

In the ordinary course of business, various types of contracts are entered into relating to the financing needs of customers. Commitments to extend credit, letters of credit, guarantees, warranties and indemnities are classed as financial instruments and attract fees in line with market prices for similar arrangements and reflect the probability of default. They are not sold or traded. They are not recorded in the statement of financial position but are disclosed in the financial statements. The Suncorp Group uses the same credit policies and assessment criteria in making these commitments and conditional obligations as it does for on-balance sheet instruments.

32.1. Credit commitments

Detailed below are the notional amounts of credit commitments together with their credit equivalent amounts determined in accordance with the capital adequacy guidelines set out by APRA:

CONSOLIDATED	2012	2011
	$m	$m
Notional amounts		
Guarantees entered into in the normal course of business	**161**	165
Commitments to provide loans and advances	**6,122**	6,062
	6,283	6,227
Credit equivalent amounts		
Guarantees entered into in the normal course of business	**152**	164
Commitments to provide loans and advances	**1,366**	1,252
	1,518	1,416

32.2. Operating lease expenditure commitments

CONSOLIDATED	2012	2011
	$m	$m
Aggregate non-cancellable operating lease rental payable but not provided in the financial statements:		
Less than one year	**175**	156
Between one and five years	**414**	404
More than five years	**72**	115
	661	675

The Suncorp Group leases property under operating leases expiring from 1-12 years. Leases generally provide the Suncorp Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria. Some of the leased properties are sub-let by the Suncorp Group. Total future minimum rental receivable under non-cancellable sub-leases not provided for in the consolidated financial statements was $6 million (2011: $4 million).

32.3. Operating lease revenue commitments

CONSOLIDATED	2012	2011
	$m	$m
Minimum lease payments receivable under non-cancellable operating leases relating to investment properties:		
Less than one year	**7**	11
Between one and five years	**20**	37
More than five years	**1**	3
	28	51

32.4. Capital and expenditure commitments

Expenditure for the acquisition of plant and equipment and other expenditure contracted for but not provided in the consolidated financial statements was $71 million (2011: $101 million).

33. Contingent assets and liabilities

33.1. Contingent assets

There are claims and possible claims made by the Suncorp Group against external parties, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Suncorp Group does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position. The directors are of the opinion that receivables are not required in respect of these matters, as it is not virtually certain that future economic benefits will eventuate or the amount is not capable of reliable measurement.

33.2. Contingent liabilities

There are outstanding court proceedings, potential fines, claims and possible claims against the Suncorp Group, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Suncorp Group does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent liabilities for which no provisions are included in these financial statements are as follows:

- The Suncorp Group has given guarantees and undertakings in the ordinary course of business in respect to credit facilities and rental obligations. Note 32 sets out details of these guarantees.
- Certain subsidiaries act as trustee for various trusts. In this capacity, the subsidiaries are liable for the debts of the trusts and are entitled to be indemnified out of the trust assets for all liabilities incurred on behalf of the trusts.
- In the ordinary course of business the Suncorp Group enters into various types of investment contracts that can give rise to contingent liabilities. It is not expected that any significant liability will arise from these types of transactions as any losses or gains are offset by corresponding gains or losses on the underlying exposures.
- Certain subsidiaries are potentially exposed to the Buyer of Last Resort (BOLR) clauses in certain advisor contracts. For the BOLR to be exercised, the following key conditions should be met by the advisor: (i) must retire from the industry, (ii) must have good compliance histories and reasonable systems and processes relative to business scale to get a full multiple, and (iii) must have tried to sell externally for a period of six months or more. The maximum potential commitments (all BOLR exercised at once) would be $45 million (2011: $31 million).

34. Significant accounting policies

The Suncorp Group's significant accounting policies set out below have been consistently applied by all Suncorp Group entities to all periods presented in these consolidated financial statements.

The Suncorp Group's significant accounting policies are presented as follows:

- Note 34.1 describes the significant accounting policies applicable to all Suncorp Group entities (including Banking)
- Note 34.2 describes the significant accounting policies specifically applicable to General Insurance
- Note 34.3 describes the significant accounting policies specifically applicable to Life; and
- Note 34.4 details the new accounting standards and interpretation not yet adopted.

34.1. Significant accounting policies applicable to all group entities

The following significant accounting policies are applicable to all Suncorp Group entities.

34.1.1. Basis of consolidation

The Suncorp Group's consolidated financial statements are financial statements of the Company and all its subsidiaries presented as those of a single economic entity. Intra-group transactions and balances are eliminated on consolidation.

(a) Subsidiaries

Subsidiaries are entities controlled by the Suncorp Group which includes companies, managed funds and trusts. Subsidiaries are consolidated from the date when control commences until the date when control ceases. Control is the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(b) Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. Critical judgements are applied in determining whether an SPE is controlled and consolidated by the Suncorp Group. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Suncorp Group and the SPE's risks and rewards, the Suncorp Group concludes that it controls the SPE.

The main types of SPEs established by the Suncorp Group are securitisation vehicles and the covered bond vehicle. The securitisation vehicles and the covered bond special purpose vehicle are controlled by the Suncorp Group and they are consolidated in the consolidated financial statements.

Securitisation vehicles

The Suncorp Group conducts a loan securitisation program whereby housing mortgage loans are packaged and sold to securitisation vehicles known as the Apollo Trusts. The Suncorp Group is entitled to the residual income of the program after all payments due to investors and associated costs of the program have been met. Further details can be found in note 7.7.

Covered bond vehicle

The covered bond vehicle beneficially owns the covered pool of assets that are secured against the covered bonds issued by the Suncorp Group. Further details can be found in note 7.8.

(c) Statutory insurance funds

The Suncorp Group's General Insurance entities are licensed to maintain statutory insurance funds for external clients. The application of the statutory funds by the licensed entities is restricted to the collection of premiums and the payment of claims, related expenses and other payments authorised under the relevant Acts. The licensed entities are not liable for any deficiency in the funds, or entitled to any surplus. For these reasons, the directors are of the opinion that the subsidiaries do not have control nor have the capacity to control the statutory funds. Therefore, the statutory funds are not consolidated into the Suncorp Group's financial statements.

(d) Non-controlling interests and managed funds units on issue

Non-controlling interests and managed funds units on issue are recognised when the Suncorp Group does not hold 100% of the shares or units in a subsidiary. They represent the external equity or liability interests in non-wholly owned subsidiaries of the Suncorp Group. Where shares or units issued are classified as equity in the subsidiary, non-controlling interests are recognised as equity. Where shares or units issued are classified as a liability in the subsidiary (e.g. investment trusts), managed funds units on issue are recognised as a liability.

34.1.1. Basis of consolidation (continued)

(e) Associates and joint venture entities (equity accounted investees)

Associates are those entities in which the Suncorp Group has significant influence, but not control, over the financial and operating policies. Joint venture entities are those entities over which the Suncorp Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

These investments are accounted for using the equity method. Interests are initially recognised at cost and adjusted to recognise the Suncorp Group's share of the profit or loss after the date of acquisition. For investments in associates, if the Suncorp Group's share of losses exceeds its investment, the carrying amount is reduced to nil and recognition of further losses is discontinued.

Investments in equity accounted investees are assessed for impairment each reporting date and are carried at the lower of the equity-accounted amount and recoverable amount.

(f) Jointly controlled assets

Jointly controlled assets are those assets in which the Suncorp Group has joint control. The Suncorp Group's interests are accounted for by including the Suncorp Group's share of the jointly controlled assets (classified according to the nature of the assets rather than as an investment), liabilities and expenses incurred, and income from the sale or use of jointly controlled assets.

(g) Joint venture operations

Joint venture operations are those operations in which the Suncorp Group has joint control. They are brought to account by recognising the assets the Suncorp Group controls, the liabilities that it incurs, the expenses it incurs and its share of income that is earned by the joint venture operations.

34.1.2. Business combinations

The acquisition method of accounting is used to account for business combinations by the Suncorp Group.

The cost of an acquisition is measured as the fair value of the assets transferred, liabilities incurred, and equity instruments issued by the Suncorp Group at the acquisition date. Acquisition-related costs are expensed in the period in which they are incurred. Where equity instruments are issued in an acquisition, their value is the published market price at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The acquiree's identifiable assets acquired, liabilities assumed, contingent liabilities, and any non-controlling interests are measured at their fair values at the acquisition date. If the consideration transferred and any non-controlling interest in the acquiree is greater than the fair value of the net amounts of the identifiable assets acquired and liabilities assumed, the excess is recorded as goodwill; otherwise, the difference is recognised immediately in profit or loss after a reassessment of the identification and measurement of the net assets acquired.

(a) Business combination of entities under common control

In a business combination arising from transfers of interests in entities that are under the control of the ultimate parent entity, the assets and liabilities are acquired at the carrying amounts recognised previously in the Suncorp Group's consolidated financial statements.

34.1.3. Foreign currency

(a) Foreign currency transactions

Transactions denominated in foreign currencies are translated into the functional currency of the operation using the spot exchange rates at the date of the transaction. Foreign currency monetary assets and liabilities at balance date are translated into the functional currency using the spot rates of exchange current on that date. The resulting differences on monetary items are recognised as exchange gains or losses in the financial year in which the exchange rates difference arises. Foreign currency non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rates at the date of the transaction. Foreign currency non-monetary assets and liabilities that are stated at fair value are translated using exchange rates at the dates the fair value was determined. Where a non-monetary asset is classified as an available-for-sale financial asset, the gain or loss is recognised in other comprehensive income.

Where a foreign currency transaction is part of a hedge relationship, it is accounted for as above, subject to the hedge accounting rules set out in note 34.1.12.

34.1.3. Foreign currency (continued)

(b) Financial reports of foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised in other comprehensive income and presented in the foreign currency translation reserve.

34.1.4. Revenue and expense recognition

(a) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method.

(b) Dividends and distribution income

Dividends and distribution income are recognised when the right to receive income is established.

(c) Fair value gains and losses

Fair value gains and losses from financial assets and liabilities at fair value through profit and loss are recognised as they occur.

(d) Fees and commissions

Fees and commission income and expense (e.g. lending fees) that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Banking non-yield related application and activation lending fee revenue is recognised when the loan is disbursed or the commitment to lend expires.

Service fees that represent the recoupment of the costs of providing service, for example maintaining and administering existing facilities, insurance portfolio fund management services income, and asset management services, are recognised on an accrual basis when the service is provided.

34.1.5. Share-based payments

The Suncorp Group operates several share-based payment transactions with its non-executive directors and employees which may be equity-settled or equity-settled with cash settlement alternative (Company's choice).

For equity-settled transactions, the fair value is recognised as an expense on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value is calculated as the fair value of each share granted multiplied by the expected number of shares to eventually vest. The fair value of each share granted is measured on grant date and does not change throughout the vesting period unless the terms and conditions of the grant are modified. The fair value of the share-based payments is based on the market price of the shares, dividend entitlements, and market vesting conditions (e.g. performance criteria) upon which the shares were granted. Non-market vesting conditions (e.g. service conditions) are taken into account by adjusting the number of shares which will eventually vest and are not taken into account in the determination of the grant date fair value. On a cumulative basis, no expense is recognised for shares granted that do not vest due to a non-market vesting condition not being satisfied.

Cash-settled transactions are recognised as a liability at fair value. Until the liability is settled, the fair value of the liability is remeasured at each reporting date, and at the date of settlement, with the changes in fair value recognised in profit or loss for the period.

Equity-settled transactions with cash settlement alternative (Company's choice) are accounted for as a cash-settled share-based payment transaction to the extent that the Company has a present obligation to settle in cash. Otherwise, the transaction is accounted for as an equity-settled arrangement.

34.1.6. Income tax

Income tax expense comprises current and deferred tax and is recognised in the profit or loss except to the extent it relates to items recognised in equity or in other comprehensive income.

Current tax consists of the expected tax payable on the taxable income for the year, after any adjustments in respect of previous years, using tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

34.1.6. Income tax (continued)

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. The tax effect of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

In determining the amount of current and deferred tax, the Suncorp Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Suncorp Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Suncorp Group to change its judgements regarding the adequacy of existing tax liabilities. Such changes to tax liabilities may impact tax expense in the financial period that such a determination is made.

For presentation purposes, deferred tax assets and deferred tax liabilities have been offset if there is a legally enforceable right to offset current tax assets and liabilities and where they relate to income taxes levied by the same taxation authority on the same taxable entity or entities within the Suncorp Group.

AASB 1038 *Life Insurance Contracts* requires shareholder and policyowner tax to be included in income tax expense in the profit or loss. The majority of life insurance tax is allocated to policy liabilities and does not affect profit attributable to owners of the Company.

Tax consolidation

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries. Consequently, all members of the tax-consolidated group are taxed as a single entity.

34.1.7. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST, except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or the amount of expense.

Receivables, payables and the provision for outstanding claims are stated with the amount of GST included.

34.1.8. Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at branches, cash on deposit, balances with the Reserve Bank of Australia (RBA), highly liquid short-term investments and money at short call. Receivables due from other banks are classified as cash equivalents for cash flow purposes. They are measured at face value or the gross value of the outstanding balance which is considered a reasonable approximation of fair value. Bank overdrafts are shown within financial liabilities unless there is a right of offset.

34.1.9. Receivables due from and payables due to other banks

Receivable due from and payables due to other banks include nostro balances and settlement account balances. They are carried at the gross value of the outstanding balance.

34.1.10. Non-derivative financial assets

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are classified as either held for trading or are designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Suncorp Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Suncorp Group's documented risk management or investment strategy. They are initially recognised on the trade date at which the Suncorp Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Transaction costs are recognised in the profit or loss as incurred. The assets are measured at fair value each reporting date based on the quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used. Movements in the fair value are taken immediately to the profit or loss. The Suncorp Group's financial assets at fair value through profit or loss include trading securities and investment securities.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Suncorp Group has the positive intention and ability to hold to maturity. They are initially recognised on trade date at fair value plus any directly attributable transaction costs and are measured at amortised cost using the effective interest rate method at each reporting date. If the investments no longer qualify as held-to-maturity investments, any remaining held-to-maturity investments are reclassified as available-for-sale financial assets.

34.1.10. Non-derivative financial assets (continued)

When reclassifying available-for-sale financial assets to held-to-maturity investments, the fair value carrying amount of the available-for-sale financial assets on the date of reclassification becomes the new amortised cost of the held-to-maturity investments. Any previous gain or loss on these investments recognised in other comprehensive income is amortised to profit or loss over the remaining life of the investments. Any difference between the new amortised cost and maturity amount is amortised over the remaining life of the investment using the effective interest method.

(c) Loans and other receivables

Loans and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These include all forms of lending and direct finance provided to Banking customers. They are initially recognised on the date that they originated. For Banking loans, this would be when cash is advanced to customers. They are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

(d) Available-for-sale financial assets

Available-for-sale financial assets consist of debt and equity securities which are intended to be held for an indefinite period of time, but which may be sold in response to a need for liquidity or changes in interest rates or exchange rates. They are initially recognised on trade date at fair value plus any directly attributable transaction costs and are measured at fair value at each reporting date. Fair value gains and losses, other than foreign exchange gains and losses on debt securities, are recognised directly in other comprehensive income until impaired or derecognised, whereupon the cumulative gains and losses previously recognised in other comprehensive income are transferred to profit or loss. Foreign exchange gains and losses on debt securities are recognised in profit or loss. The Suncorp Group's available-for-sale financial assets include investment securities.

(e) Derecognition of financial assets

Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Suncorp Group has transferred substantially all risk and rewards of ownership.

(f) Repurchase agreements

When the Suncorp Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date (repurchase agreement), the financial assets sold under such agreements continue to be recognised as a financial asset and the obligation to repurchase recognised as a liability.

34.1.11. Derivative financial instruments

The Suncorp Group holds derivative financial instruments to hedge the Suncorp Group's assets and liabilities or as part of the Suncorp Group's trading and investment activities. Derivatives include foreign exchange contracts, forward rate agreements and interest rate, currency and equity futures.

All derivatives are initially recognised at fair value on trade date and transaction costs are recognised in profit or loss as incurred. Fair values are determined from quoted market prices where available; where quoted market prices are not available, discounted cash flow models, broker and dealer price quotations or option pricing models are used as appropriate. Derivatives are classified and accounted for as held for trading financial assets at fair value through profit or loss (note 34.1.10 (a)) unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting (note 34.1.12).

Embedded derivatives

Where a derivative is embedded in another financial instrument, the economic characteristics and risks of the derivative are not closely related to those of the host contract and the host contract is not carried at fair value, the embedded derivative is separated from the host contract and carried at fair value through profit or loss. Otherwise, the embedded derivative is accounted for on the same basis as the host contract.

34.1.12. Hedge accounting

The Suncorp Group applies hedge accounting to offset the effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. On entering into a hedging relationship, the Suncorp Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Suncorp Group will assess the hedging instrument's effectiveness. On an ongoing basis, hedges are assessed for whether they are highly effective in achieving offsetting changes in fair values or cash flows of hedged items. A hedge is considered highly effective when the actual results of the hedge are within a range of 80–125%.

34.1.12. Hedge accounting (continued)

(a) Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability of cash flows that:

- is attributable to a particular risk associated with a recognised asset or liability (such as future interest payments on variable rate debt) or a highly probable forecast transaction; and
- could affect profit or loss.

Changes in the fair value associated with the effective portion of a hedging instrument designated as a cash flow hedge are recognised in the hedging reserve within equity as the lesser of the cumulative fair value gain or loss on the hedging instrument and the cumulative change in fair value on the hedged item from the inception of the hedge. Ineffective portions are immediately recognised in the profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised or, the hedge relationship is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the amounts accumulated in equity are released to profit or loss immediately. In other cases the cumulative gain or loss previously recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(b) Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of:

- a recognised asset or liability
- an unrecognised firm commitment; or
- an identified portion of such an asset, liability or firm commitment,

that is attributable to a particular risk and could affect profit and loss.

Where an effective hedge relationship is established, fair value gains or losses on the hedging instrument are recognised in profit or loss. The hedged item attributable to the hedged risk is carried at fair value with the gain or loss recognised in profit or loss.

When a hedge relationship no longer meets the criteria for hedge accounting, the hedged item is accounted for under the effective interest method from that point and any accumulated adjustment to the carrying value of the hedged item from when it was effective is released to profit or loss over the period to when the hedged item will mature.

34.1.13. Assets and liabilities classified as held for sale

These are non-current assets and liabilities that are expected to be recovered primarily through sale rather than continuing use. Once classified, the assets and liabilities are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification and subsequent gains or losses on re-measurement are recognised in the profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

34.1.14. Property, plant and equipment

(a) Recognition and initial measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition.

Property, plant and equipment are derecognised upon disposal or where no future economic benefits are expected from its use. The resulting gain or loss is recognised and calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds.

(b) Depreciation

The depreciable value of the asset, which is the cost of an asset less any residual value, is depreciated over the asset's useful life. The straight-line method of depreciation is used with assets being depreciated from the date they become available for use.

Useful lives and depreciation methods are reviewed at each annual reporting period. Residual values, if significant, are reassessed annually. The depreciation rates used for the current and comparative periods are as follows:

Class	Buildings	Leasehold improvements	Plant and equipment
Depreciation rate	2.5%	10% to 20%	10% to 50%

34.1.15. Intangible assets

(a) Initial recognition and measurement

Intangible assets are recognised at cost less any accumulated amortisation and any accumulated impairment losses. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at acquisition date.

Goodwill is recognised at cost from business combinations as described in note 34.1.2 and is subsequently measured at cost less accumulated impairment loss. Goodwill on equity accounted investments is included in the carrying value of the investment.

Internally generated intangible assets

Internally generated intangible assets such as software are recorded at cost, which comprises all directly attributable costs necessary to purchase, create, produce, and prepare the asset to be capable of operating in the manner intended by management.

All other expenditure, including expenditure on software maintenance, research costs and brands is recognised as an expense as incurred.

(b) Amortisation

Amortisation is recognised in a manner that reflects the pattern in which the asset's future economic benefits are expected to be consumed over the estimated useful lives of finite intangible assets, from the date the assets are available for use. The amortisation method and useful lives are reviewed annually. The estimated useful lives of intangible assets are as follows:

Category	Brands	Customer contracts & other relationships	Outstanding claims liabilities intangible	Software
Useful life	1-50 years	1-30 years	20 years	3-7 years

Intangible assets deemed to have an indefinite useful life are not amortised but are tested for impairment at least annually.

34.1.16. Impairment

(a) Financial assets

Financial assets, other than those measured at fair value through profit and loss, are assessed each reporting date to determine whether there is any objective evidence of impairment. If impairment has occurred, the carrying amount of the asset is written down to its estimated recoverable amount.

Loans and receivables

An impairment loss is recognised in respect of financial assets measured at amortised cost when the carrying amount of the asset exceeds the present value of its estimated discounted future cash flows calculated based on the asset's original effective interest rate. When impairment losses are recognised, the carrying amount of the relevant asset or group of assets is reduced by the balance of the provision for impairment. If a subsequent event causes the amount of the impairment loss to decrease, the impairment loss is reversed through profit or loss.

The amount necessary to bring the impairment provisions to their assessed levels, after write-offs, is charged to profit or loss. All known bad debts are written off in the period in which they are identified. Where not previously provided for, they are written off directly to profit or loss.

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income.

In relation to provision for impairment of Banking loans and advances, two categories of provisions are recognised: specific provisions and collective provisions. Specific impairment provisions are recognised for all loans where there is objective evidence that an individual loan is impaired. Specific impairment provisions are based on the carrying amount of the loan and the present value of expected future cash flows.

A collective provision is established for loan portfolios which are not specifically provisioned. Collective provisions are held for potential credit losses which have been incurred but not yet specifically identified, and can be in the performing or non performing portfolios. For business banking exposures, a ratings based approach is applied using estimates of probability of default and loss given default, at a customer level. For portfolio managed exposures, the portfolios are split into pools with homogenous risk profiles and pool estimates of probability of default and loss given default are used to calculate the collective provision.

The difference between the Bank's term expected loss and the collective provision raised is recognised in the equity reserve for credit losses.

34.1.16. Impairment (continued)

(a) Financial assets (continued)

Available-for-sale financial assets

An impairment loss is recognised in respect of available-for-sale financial assets where there is evidence of a decrease in fair value below cost. Cumulative losses are transferred from the available-for-sale reserve in equity to the profit or loss. When subsequent events cause the amount of the impairment loss to decrease, a reversal of the impairment is recognised in profit or loss for debt securities and in equity for equity securities.

(b) Non-financial assets

Non-financial assets are assessed for indicators of impairment at each reporting date. Indicators include both internal and external factors. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) – this may be an individual asset or a group of assets. For the purpose of assessing impairment of goodwill, goodwill is allocated to cash generating units representing the Suncorp Group's investment in each of its business lines, which are its operating segments.

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in profit or loss. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Impairment losses, if any, recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss recognised for goodwill is not reversed. An impairment loss for an asset other than goodwill is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

34.1.17. Non-derivative financial liabilities

(a) Financial liabilities at fair value through profit or loss

These liabilities are classified as either held for trading or those that are designated upon initial recognition. Liabilities are initially recognised on trade date at fair value with any directly attributable transaction costs recognised in profit or loss as incurred. Fair value is determined using the offer price where available. Movements in the fair value are recognised in the profit or loss. The Suncorp Group designates certain short-term offshore borrowings as being at fair value through profit or loss when they are managed on a fair value basis.

(b) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are initially measured at fair value plus any directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. The Suncorp Group's financial liabilities at amortised cost includes payables due to other financial institutions and deposits and short-term borrowings, debt issues, subordinated notes and preference shares.

(c) Derecognition of financial liabilities

Non-derivative financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.

34.1.17. Non-derivative financial liabilities (continued)

(d) Preference shares

Reset Preference Shares (RPS) and Convertible Preference Shares (CPS) are recognised as financial liabilities at amortised cost. The capital is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. Dividends are charged as an interest expense as accrued.

RPS are exchangeable on specific dates at the option of the holder. Once an exchange request is received, the Suncorp Group can elect to exchange the RPS for cash or a variable number of SML ordinary shares, exhibiting characteristics of a financial liability.

CPS are convertible to a variable number of the Company's ordinary shares on mandatory conversion dates and hence exhibit characteristics of a financial liability.

Further details on the RPS and CPS can be found in note 7.10.

34.1.18. Leases

A distinction is made between finance leases (which effectively transfer substantially all the risks and benefits incidental to ownership of leased non-current assets from the lessor to the lessee) and operating leases under which the lessor effectively retains substantially all such risks and benefits.

(a) Finance leases

Finance leases, where the Suncorp Group is the lessor, are recognised as loans, advances and other receivables on the commencement of the lease, and measured at the net investment in the lease, being the present value of the minimum lease payments receivable and any unguaranteed residual value, plus any initial direct costs.

The revenue attributable to finance leases is brought to account in profit or loss based on a constant periodic rate of return on the Suncorp Group's net investment in the finance lease.

(b) Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased asset.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Surplus leased premises

A provision is recognised for surplus leased premises where it is determined that no material benefit will be obtained by the Suncorp Group from its occupancy. This arises where premises are leased under non-cancellable operating leases and the Suncorp Group either:

- currently does not occupy the premises and does not expect to occupy them in the future
- sublets the premises for lower rentals than it is presently obliged to pay under the original lease; or
- currently occupies the premises which have been assessed to be of no material benefit beyond a known future date.

The provision is calculated on the basis of net future cash outflows.

34.1.19. Employee entitlements

(a) Superannuation

The Suncorp Group contributes to both defined contribution and defined benefit superannuation schemes. Contributions made to defined contribution plans are charged to the profit or loss as the obligation to pay is incurred. The defined contribution plans receive fixed contributions and the Suncorp Group's legal or constructive obligation is limited to these contributions.

A defined benefit liability is recognised in the consolidated statement of financial position as a net total of the present value of the defined benefit obligation at the balance date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

If the defined benefit liability resulted in negative balance, a defined benefit asset is recognised as the lower of the negative defined benefit liability and the total of cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

34.1.19. Employee entitlements (continued)

(a) Superannuation (continued)

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in equity. Past service costs are recognised immediately in profit or loss.

(b) Short-term employee benefits

Liabilities for employee benefits are those due to be paid within 12 months of providing service and are measured at their nominal amounts using pay rates expected to be effective when the liability is to be paid. Related on-costs such as workers' compensation and payroll tax are also included in the liability.

A liability is recognised for short-term bonus plans when there is a constructive obligation to pay this amount and the amount can be reliably estimated.

(c) Long service leave

A liability for long service leave is recognised as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using Commonwealth Government bond rates with terms to maturity that match, as closely as possible, the estimated future cash outflows. Related on-costs such as workers' compensation and payroll tax are also included in the liability.

(d) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts a voluntary redundancy in exchange for these benefits. The Suncorp Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

34.1.20. Share capital

(a) Repurchase of share capital

When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

(b) Treasury shares

Ordinary shares of the Company that are acquired by subsidiaries including share-based remuneration trusts and controlled unit trusts are referred to as treasury shares. They are deducted from consolidated equity at the amount of the consideration paid. No gain or loss on treasury shares is recognised.

(c) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. Transaction costs in excess of the proceeds of the equity instruments issued, or where no proceeds are raised, are recognised as an expense.

34.1.21. Contingent liabilities and contingent assets

Contingent liabilities are not recognised but are disclosed in the financial report, unless the possibility of settlement is remote, in which case no disclosure is made. If settlement becomes probable and the amount can be reliably estimated, a provision is recognised.

Contingent assets are not recognised but are disclosed in the financial report when inflows are probable. If inflows become virtually certain, an asset is recognised.

The amount disclosed as a contingent liability or contingent asset is the best estimate of the settlement or inflow.

34.2. Significant accounting policies specifically applicable to General Insurance

34.2.1. General insurance revenue and expense recognition

(a) Premium revenue

Premium revenue comprises amounts charged to policyowners and includes applicable levies and charges such as fire service levies but excludes stamp duty and taxes collected on behalf of third parties such as GST.

Premiums are recognised as revenue in accordance with the pattern of the underlying risk exposure from the date of attachment over the period of the insurance policy, which is usually one year.

Premiums on unclosed business are brought to account by reference to the prior year's experience and information that has become available between the reporting date and the date of completing the financial report.

(b) Managed funds income

The Suncorp Group manages statutory insurance funds for external clients and earns income from the provision of services such as premium collection and claims processing (base fee) as well as an incentive fee based on performance results. Income for the base fee is recognised as the service is provided and for the incentive fee, as the income is earned.

Fees receivables are based on management's best estimate of the likely fee at balance date. There is a significant amount of judgement involved in the estimation process of the fees receivable which may not be finalised for a number of years.

The statutory authorities allocate the base fee to each authorised agent based on factors such as market share and service capability. The performance fee is allocated to each authorised agent based on performance components set by each statutory authority.

(c) Claims expense

Claims expense represents payments for claims and the movement in outstanding claims liabilities. Claims represent the benefits paid or payable to the policyowner on the occurrence of an event giving rise to a loss or accident according to the terms of the policy. Claims expenses are recognised in profit or loss as losses are incurred, which is usually the point in time when the event giving rise to the claim occurs.

(d) Outwards reinsurance expense

Premiums ceded to reinsurers are recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

34.2.2. Financial assets backing general insurance liabilities

The Suncorp Group has designated financial assets held in portfolios that match the average duration of a corresponding insurance liability as assets backing General Insurance liabilities. These financial assets are designated as fair value through profit or loss as they are managed and their performance is evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy. These financial assets include investment securities, premiums outstanding and reinsurance and other recoveries.

All investment securities held to back general insurance liabilities and held for trading are highly liquid securities. Despite some of these securities having maturity dates beyond the next 12 months, as they are highly liquid in nature and are actively traded, they have been classified as current.

Receivables are valued at fair value which is approximated by taking the initially recognised amount and reducing it for credit risk and time value of money as appropriate. Short duration receivables with no stated interest rate are normally measured at the original invoice amount which approximates fair value.

34.2.3. Financial assets not backing general insurance liabilities

Financial assets that do not back General Insurance liabilities include investment securities and receivables. Investment securities have been designated as fair value through profit or loss as they are managed and their performance evaluated on a fair value basis.

34.2.4. Reinsurance and other recoveries receivables

Reinsurance and other recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

34.2.5. Deferred insurance assets

(a) Deferred acquisition costs

Acquisition costs are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in profit or loss in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

Deferred acquisition costs are recognised as assets to the extent that the related unearned premiums exceed the sum of the deferred acquisition costs and the present value of both future expected claims and settlement costs, including an appropriate risk margin. Where there is a shortfall, the deferred acquisition costs asset is written down and if insufficient, an unexpired risk liability is recognised.

(b) Deferred reinsurance premiums

Reinsurance premiums are deferred and recognised as an asset where there are future economic benefits to be received from reinsurance premiums. The amortisation of deferred reinsurance premiums is in accordance with the pattern of reinsurance service received.

34.2.6. Unearned premium liability

Premium revenue received and receivable but not earned is recognised as an unearned premium liability.

The carrying value of the unearned premium liability is assessed at each reporting date by carrying out a liability adequacy test (LAT). This test assesses whether the net unearned premium liability less any deferred acquisition costs is sufficient to cover future claims costs for in-force insurance contracts. Future claims costs are calculated as the present value of the expected cash flows relating to future claims, and include a risk margin to reflect the inherent uncertainty in the central estimate. The assessment is carried out on a portfolio of contracts basis. If a LAT deficiency occurs, it is recognised in the profit or loss with a corresponding write down of related deferred acquisition costs. Any remaining balance would be recognised as an unexpired risk liability on the statement of financial position.

The LAT test is based on prospective information and so is heavily dependent on assumptions and judgements which are explained in note 6.6.2.

34.2.7. Outstanding claims liabilities

The liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty of the central estimate. Standard actuarial methods are applied to determine the net central estimate of outstanding claims liabilities. Outstanding claims liability is heavily dependent on assumptions and judgements. The details of actuarial assumptions and the process for determining the risk margins are set out in note 6.6.2.

34.3. Significant accounting policies specifically applicable to Life

Under the *Life Insurance Act 1995* (*Life Act*), Life business is conducted within one or more separate statutory funds, which are distinguished from each other and from the shareholder funds. The financial reports of the Australian life companies prepared in accordance with AASB 1038 *Life Insurance Contracts* (and which are lodged with the relevant Australian regulators) show all major components of the financial statements disaggregated between the various life insurance statutory funds and their shareholder funds, as well as between investment-linked business and those relating to non-investment-linked businesses.

The assets of the Life business are allocated between the policyowner and shareholder funds with all assets, liabilities, revenues and expenses recognised in the consolidated financial statements, irrespective of whether they are policyowner or shareholder owned.

The shareholder's entitlement to monies held in the statutory funds is subject to the distribution and transfer restrictions and other requirements of the *Life Act* and the relevant company's constitution. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions.

Participating policyowners can receive a distribution when solvency requirements are met, while shareholders can only receive a distribution when the higher level of capital adequacy requirements are met (refer note 8.8). Participating policyowners and shareholders in Asteron Life Ltd (New Zealand) can only receive a distribution when the prudential reserving requirement is met.

34.3.1. Life revenue and expense recognition

(a) Premium revenue

Premium recorded as revenue relates to risk-bearing life insurance contracts. The components of premium that relate to life investment contracts are in the nature of deposits and are recognised as a movement in policy liabilities.

Life insurance premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised on an accruals basis.

(b) Fees and other revenue

Fee revenue is recognised as services are provided. The entry fee in relation to life investment contracts is deferred and recognised over the average expected life of the investment contract. The revenue that can be attributed to the origination service is recognised at inception.

(c) Claims expense

Insurance claims are recognised when the liability to the policyowner under the policy contract has been established or upon notification of the insured event, depending on the type of claim.

The component of a life insurance contract claim that relates to the bearing of risks is treated as a claim expense. Other life insurance claim amounts and all life investment contract amounts paid to policyowners are in the nature of withdrawals and are recognised as a decrease in policy liabilities.

(d) Outwards reinsurance expense

Premium ceded to reinsurers is recognised as outwards reinsurance premium expense in profit or loss from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. A portion of outwards reinsurance premium is recognised as a deferred reinsurance asset at reporting date.

(e) Basis of expense apportionment

Life insurance expenditure has been apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Act.* The expense apportionment basis is in line with the principles set out in LPS 1.04 *Valuation of Policy Liabilities* and New Zealand Society of Actuaries Professional Standard Number 3 *Determination of Life Insurance Policy Liabilities*.

Expenses excluding investment management fees, which are directly identifiable, have been apportioned between policy acquisition and policy maintenance on the basis of the objective when incurring each expense, and the outcome achieved. Where allocation is not feasible between the disclosure categories, expenses have been allocated as maintenance expenses. Expenses directly attributable to an individual policy or product are allocated directly to the statutory fund within which the class of business to which that policy or product belongs. All indirect expenses charged to profit or loss are equitably apportioned to each class of business.

Statistics such as policy counts, annual premiums, funds under management and claims payments are used to apportion the expenses to individual life insurance and life investment products.

34.3.2. Financial assets backing life insurance and life investment liabilities

The Suncorp Group has determined that all financial assets within its statutory funds are assets backing policy liabilities. These financial assets are designated as fair value through profit or loss as they are measured on a basis that is consistent with the measurement of the liabilities. These financial assets include investment securities and receivables.

34.3.3. Financial assets not backing life insurance and life investment liabilities

Financial assets held within the shareholder funds do not back life insurance liabilities or life investment liabilities and include investment securities and receivables. Investment securities are designated as fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy. Receivables are measured at amortised cost less accumulated impairment losses.

34.3.4. Deferred acquisition costs

Life insurance contracts – deferred acquisition costs include the fixed and variable costs of acquiring new business and include commissions, certain advertising and underwriting costs. These costs are implicitly deferred through Margin on Service accounting. The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative.

Life investment contracts – deferred acquisition costs include the variable costs of acquiring new business and include commission costs. They are amortised in accordance with the expected earning pattern of the associated revenue.

All other acquisition costs are expensed as incurred.

34.3.5. Policy liabilities

(a) Life insurance contracts

Life insurance contract liabilities are calculated using the Margin on Services (MoS) methodology. Under MoS, the excess of premium received over expected claims and expenses is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyowner.

The projection method is generally used to determine life insurance contract liabilities. The net present value of projected cash flows is calculated using best estimate assumptions about the future. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets. Otherwise, a risk-free discount rate is used.

An accumulation method has been used for some risk business, where the liability is based on an unearned premium reserve, less an explicit allowance for deferred acquisition costs, and a reserve for incurred but not reported claims.

Participating policies are entitled to share in the profits that arise from participating business. This profit sharing is governed by the *Life Act* and the Life companies' constitutions. The participating policyowner profit sharing entitlement is treated as an expense in the profit or loss.

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyowners by applying the MoS principles in accordance with the *Life Act* and the New Zealand Society of Actuaries Professional Standard Number 3 *Determination of Life Insurance Policy Liabilities*.

Profit allocated to participating policyowners is recognised as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyowners (i.e. unvested) and that which has been allocated to specific policyowners by way of bonus distributions (i.e. vested) are included within life insurance contract liabilities.

(b) Life investment contracts

A life investment contract involves both the origination of a financial instrument and the provision of investment management services. Policy liabilities are measured at the fair value of the financial instrument component of the contract (designated as fair value through profit or loss) plus the liability in respect of the management services element. The management services element, including associated acquisition costs, is recognised as revenue as services are performed.

For investment-linked products, the life investment contract liability is directly linked to the performance and value of the assets that back them and is determined as the fair value of those assets after tax. For fixed income policies, the liability is determined as the net present value of expected cash flows, subject to a minimum of current surrender value.

34.3.5. Policy liabilities (continued)

(c) Liability adequacy test

The adequacy of the life insurance liabilities is evaluated each year. The liability adequacy test considers current estimates of all contractual and related cash flows. If it is determined, using best estimate assumptions, that a shortfall exists, the shortfall is immediately recognised in the profit or loss.

34.4. New accounting standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Suncorp Group in this financial report:

- AASB 10 *Consolidated Financial Statements*, when it becomes mandatory for the Suncorp Group's 30 June 2014 financial statements, will supersede AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purposes Entities*. It introduces a new single control model to assess whether to consolidate an investee. Adoption of this standard will have an immaterial effect to the Suncorp Group.
- AASB 13 *Fair Value Measurement* provides a definition of the term, fair value, and introduces additional disclosure requirements. This is applicable for all assets and liabilities measured at fair value, including non-financial assets and liabilities. This standard becomes mandatory for the Suncorp Group's 30 June 2014 financial statements. The potential effects on adoption of the amendments are yet to be determined.
- AASB 119 *Employee Benefits* is amended for changes in accounting and disclosures on defined benefit superannuation plans; definitions of short-term and other long-term employee benefits affecting the measurement of the obligations; and the timing for recognition of termination benefits. The amendments become mandatory for the Suncorp Group's 30 June 2014 financial statements with specific transitional requirements. The potential effects on adoption of the amendments are yet to be determined.
- AASB 9 *Financial Instruments* was issued and introduces changes in the classification and measurement of financial assets and financial liabilities. This standard becomes mandatory for the Suncorp Group's 30 June 2016 financial statements. The potential effects on adoption of the amendments are yet to be determined.

35. Group risk management

35.1. Group risk management objectives and structure

The Board and management recognise that effective risk management is considered to be critical to the achievement of the Suncorp Group's objectives. The Board Risk Committee has delegated authority from the Board to oversee the adequacy and effectiveness of the risk management frameworks and processes within the Suncorp Group.

An Enterprise Risk Management Framework (ERMF) is in place for the Suncorp Group. It is subject to an annual review, updated for material changes as they occur and is approved by the Board Risk Committee. The ERMF comprises:

- the Suncorp Group's risk appetite framework and its link to strategic business and capital plans
- accountabilities and governance arrangements for the management of risk within the Three Lines of Defence model
- the Suncorp Group's Policy and Compliance frameworks; and
- the risk management process.

The Three Lines of Defence model of accountability involves:

Line of Defence	Responsibility of	Accountable for
First – Manage risk and comply with Suncorp Group frameworks, policies and risk appetite	All business areas (and staff)	• Identifying and managing the risks inherent in their operations • Ensuring compliance with all legal and regulatory requirements and Suncorp Group policies; and • Promptly escalating any significant actual and emerging risks for management attention.
Second – Independent functions own and monitor the application of risk frameworks, and measure and report on risk performance and compliance	All risk functions (Suncorp Group and Line of Business)	• Design, implement and manage the ongoing maintenance of Suncorp Group risk frameworks and related policies • Advise and partner with the business in design and execution of risk frameworks and practices; develop, apply and execute Line of Business risk frameworks that are consistent with Suncorp Group for the respective business areas; and • Facilitate the reporting of the appropriateness and quality of risk management.
Third – Independent assurance over internal controls and risk management practices	Board Audit Committee, internal and external auditors	• Decides the level and extent of independent testing required to verify the efficacy of internal controls • Validates the overall risk framework; and • Provides assurance that the risk management practices are functioning as intended.

The Board has delegated authorities and limits to the Group Chief Executive Officer (Group CEO) to manage the business. Management recommends to the Board, and the Board has approved, various frameworks, policies and limits relating to key categories of risk faced by the Suncorp Group within the Group CEO's authorities and limits.

The Senior Leadership Team, comprising the Group CEO, Line of Business CEOs and all Group Executives, provides executive oversight and direction-setting across the Suncorp Group, taking risk considerations into account. The Group Chief Risk Officer, a member of the Senior Leadership Team, is charged with the overall accountability for the Risk Management Framework and overall risk management capability.

The Suncorp Group has in place a number of Management Risk Committees, each with its own charter, to execute specified responsibilities in the risk framework. Management asset and liability committees are in place to provide effective governance over aspects of the risk framework designed to optimise the long-term returns achieved by asset portfolios within the risk appetite or parameters established by the Board.

35.1. Group risk management objectives and structure (continued)

APRA-regulated entities, subject to APRA regulation, prepare Risk Management Strategies (RMS) approved by the Board and submit to APRA annually. The RMS describe the strategy adopted by the Board and management for managing risk within these entities, including risk appetite, policies, procedures, management responsibilities and controls.

The key risks addressed by the ERMF are defined below.

Key risks	Definition
Counterparty risk (Credit risk)	The risk that a counterparty will not meet its obligations in accordance with agreed terms.
Liquidity risk	The risk that the Suncorp Group will be unable to service its cash flow obligations today or in the future.
Market risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities.
Asset and liability risk	The risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term.
Insurance risk	The risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, concentration risk, reserving, claims management and/or reinsurance management.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Suncorp Group may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards.
Strategic risk	The risk of loss arising from uncertainty about the future operating environment, including reputation, industry, economic and regulatory environment, branding, crisis management, and partners and suppliers.

The Suncorp Group is exposed to mainly the following categories of market risks:

Categories of market risk	Definition
Foreign exchange (FX) risk	The risk of an asset or liability's value changing unfavourably due to changes in currency exchange rates.
Interest rate risk	The risk of loss of current and future earnings and unfavourable movements in the value of interest-bearing assets and liabilities from changes in interest rates.
Equity risk	The risk of loss in current and future earnings and unfavourable movement in the value of investment in equity instruments from adverse movements in equity prices.
Credit spread risk	Credit spread is the difference in yield due to difference in credit quality. This is the risk of loss in current and future earnings and unfavourable movement in the value of investments from changes in the credit spread as determined by capital market sentiment or factors affecting all issuers in the market and not necessarily due to factors specific to an individual issuer.

Further discussions on the application of the Suncorp Group's risk management practices are presented in the following sections:

- Note 35.2 Group insurance risk management
- Notes 35.3 to 35.6 Risk management for financial instruments: credit, liquidity and market risks applied by each of the Suncorp Group's business areas
- Note 35.7 Derivative financial instruments and hedging.

35.2. Group insurance risk management

35.2.1. Policies for mitigating insurance risk

The risk management activities include prudent underwriting, pricing, acceptance and management of risk, together with claims management and reserving.

The key policies in place to mitigate insurance risk include the following:

- the setting and adherence to underwriting guidelines that determine policies and procedures for acceptance of risk
- the setting of formal claims acceptance limits and the regular review and updating of claims experience data
- the reduction in the concentration of insurance risk through diversification
- entering into reinsurance and ceding arrangements to preserve capital and manage earnings volatility from large individual or catastrophic claims
- the maintenance of appropriate actuarial reserves including reserves to cover claims incurred but not yet reported
- the identification and consistent monitoring against budget projections derived from the actuarial projection models of external variables which impact claims cash flow such as mortality and morbidity experience, claims frequency and persistency
- managing of risk exposures using various analysis and valuation techniques, including stochastic modelling, to calculate the capital required under adverse risk scenarios
- the monitoring of natural disasters such as floods, storms, earthquakes and other catastrophes. Exposures to such risks are monitored using catastrophe models.

In addition, the Board receives Financial Condition Reports from the Appointed Actuary who also provides advice in relation to premium, issuing of new policies and reinsurance arrangements in accordance with APRA Prudential Standards. The Appointed Actuary for Asteron Life Limited (New Zealand) (ALLNZ) provides a Financial Condition Report and similar advice to the ALLNZ Board.

Concentration of insurance risk is mitigated through diversification over classes of insurance business, industry segments, geographical segments (Australia and New Zealand), the use of reinsurer coverage and ensuring there is an appropriate mixture of individual and group insurance business split between mortality, morbidity and annuity benefit payments. Catastrophe insurance is also purchased to ensure that any accumulation of losses from one area is protected.

Exposure to risk of large claims for individual lives is managed through the use of surplus reinsurance arrangements whereby the Suncorp Group's maximum exposure to any individual life is capped. Concentrations of risk by product type are managed through monitoring of the Suncorp Group's in-force life insurance business and the mix of new business written each year.

A product pricing and re-rating process ensures that any cross subsidies between insurance rates for groups of policyowners of different sex and age are minimised such that profitability is not materially impacted by changes to the age and sex profile of the in-force business.

35.2.2. Terms and conditions of insurance business

(a) General Insurance

The majority of direct insurance contracts written are entered into on a standard form basis. Insurance contracts are generally entered into on an annual basis and at the time of entering into a contract all terms and conditions are negotiable or, in the case of renewals, renegotiable. Non-standard and long-term policies may only be written if expressly approved by a relevant delegated authority. There are no special terms and conditions in any non-standard contracts that would have a material impact on the financial statements. There are no embedded derivatives that are separately recognised from a host insurance contract.

(b) Life business

The nature and terms of the insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend.

The following table provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance and investment contracts issued by the Suncorp Group depend.

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting the timing and uncertainty of future cash flows
Long-term non-participating insurance contracts with fixed and guaranteed terms (Term Life and Disability)	Guaranteed benefits paid on death, ill health or maturity which are fixed and are not at the discretion of the issuer.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, lapses, expenses and market earning rates on the assets backing the liabilities.
Conventional life insurance contracts with discretionary participating benefits (Endowment and Whole of Life)	These policies combine life insurance and savings. The policyowner pays a regular premium and receives the specified sum assured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on surrender, death or maturity.	Operating profit arising from these contracts is allocated 80:20 between the policyowners and shareholders in accordance with the *Life Act*. The amount allocated to policyowners is held as an unvested policy liability until it is distributed to specific policyowners as bonuses.	Mortality, surrenders, expenses and market earning rates on the assets backing the liabilities.
Investment account contracts with discretionary participating features	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is guaranteed. Operating profit arising from these contracts is allocated between the policyowners and shareholders in accordance with the *Life Act*. The amount allocated to policyowners is held as an unvested policy liability until it is distributed to specific policyowners as interest credits.	Surrenders, expenses and market earning rates on the assets backing the liabilities.
Unit linked investment contracts	The gross value of premiums received is invested in units and the policyowner investment account is the value of the units. Investment management fees are deducted from policyowners annually based on the average value of funds under management.	The investment return is equal to the earnings on assets backing the investment contracts less any applicable management fees.	Market risk, expenses and withdrawals.
Lifetime annuity	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of guaranteed regular income is set at inception of the policy, including any indexation.	Longevity, expenses and market earning rates on assets backing liabilities.

35.3. General Insurance risk management for financial instruments

35.3.1. Credit risk

General Insurance is exposed to and manages the following key sources of credit risk.

Key sources of credit risk	How these are managed
Premiums receivable	Outstanding premiums on policies which are generally paid on a monthly instalment basis. Late payments will result in the cancellation of the insurance contract with the policyowner, eliminating both the credit risk and insurance risk for the unpaid balance.
Investments in financial instruments	Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings.
Reinsurance recoveries	Reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market. Concentration of credit risk is mitigated by placement of cover with a number of reinsurers with Standard and Poor's (or equivalent) credit ratings of A– or better, with participation limits and minimum security requirements imposed.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 6.3.

The following table provides information regarding credit risk exposure of General Insurance financial assets, classified according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as non-investment grade.

GENERAL INSURANCE

	Credit rating						
	AAA $m	AA $m	A $m	BBB $m	Non-investment grade $m	Not rated $m	Total $m
2012							
Cash and cash equivalents	**-**	**53**	**49**	**11**	**-**	**-**	**113**
Investment securities	**4,040**	**4,071**	**1,766**	**153**	**-**	**908**	**10,938**
Derivatives	**-**	**22**	**28**	**-**	**-**	**-**	**50**
General Insurance assets [1]	**549**	**1,346**	**1,500**	**1**	**1**	**2,780**	**6,177**
Other	**26**	**55**	**33**	**2**	**-**	**-**	**116**
	4,615	**5,547**	**3,376**	**167**	**1**	**3,688**	**17,394**
2011							
Cash and cash equivalents	-	98	96	1	-	-	195
Investment securities	4,976	4,409	1,234	145	18	-	10,782
Derivatives	-	9	14	-	-	-	23
General Insurance assets [1]	415	1,224	2,754	1	-	2,522	6,916
Other	37	62	21	2	-	-	122
	5,428	5,802	4,119	149	18	2,522	18,038

Note

1 Only includes components of General Insurance assets that are classified as financial assets.

35.3.1. Credit risk (continued)

All General Insurance financial assets are neither past due nor impaired at balance date except for those included in the following table. An amount is considered past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis presented.

GENERAL INSURANCE	Neither past due nor impaired	Past due but not impaired				Impaired	Total
		0-3 mths	3-6 mths	6-12 mths	> 12 mths		
	$m	$m	$m	$m	$m	$m	$m
2012							
Premiums outstanding	**2,038**	**28**	**49**	**10**	**4**	**8**	**2,137**
Other receivables designated at fair value throught profit or loss	**209**	**28**	**-**	**1**	**1**	**-**	**239**
	2,247	**56**	**49**	**11**	**5**	**8**	**2,376**
2011							
Premiums outstanding	1,786	26	32	8	7	5	1,864
Other receivables designated at fair value throught profit or loss	327	25	3	1	-	2	358
	2,113	51	35	9	7	7	2,222

Receivables neither past due nor impaired in the above table are not rated according to the Standard & Poor's counterparty credit ratings. General Insurance does not expect any counter parties to fail to meet their obligations given their credit ratings and therefore does not require collateral or other security to support credit risk exposures.

35.3.2. Liquidity risk

To ensure payments are made when they fall due, General Insurance has the following key facilities and arrangements in place to mitigate liquidity risks:

- investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations
- investment funds set aside within the portfolio can be realised to meet significant claims payment obligations
- in the event of a major catastrophe, immediate cash access is available under the terms of reinsurance arrangements; and
- mandated liquidity limits imposed to each General Insurance legal entity.

The following table summarises the maturity profile of General Insurance financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for outstanding general insurance claims liabilities based on the discounted estimated timing of net cash outflows.

GENERAL INSURANCE	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total cash flows
2012	**$m**	**$m**	**$m**	**$m**	**$m**
Payables and other liabilities [1]	**1,345**	**1,251**	**93**	**1**	**1,345**
Unearned premiums liabilities	**4,226**	**4,212**	**14**	**-**	**4,226**
Net discounted outstanding claims liabilities	**6,953**	**2,431**	**3,243**	**1,279**	**6,953**
Subordinated notes	**708**	**40**	**776**	**-**	**816**
Managed funds units on issue	**15**	**15**	**-**	**-**	**15**
	13,247	**7,949**	**4,126**	**1,280**	**13,355**
Gross settled derivatives					
Amounts receivable	**-**	**(12)**	**(233)**	**-**	**(245)**
Amounts payable	**72**	**12**	**342**	**-**	**354**
	72	**-**	**109**	**-**	**109**
2011					
Payables and other liabilities [1]	1,029	1,004	31	3	1,038
Unearned premiums liabilities	3,854	3,846	8	-	3,854
Net discounted outstanding claims liabilities	6,317	2,028	3,163	1,126	6,317
Subordinated notes	678	42	520	294	856
Managed funds units on issue	16	16	-	-	16
	11,894	6,936	3,722	1,423	12,081
Gross settled derivatives					
Amounts receivable	-	(12)	(45)	(11)	(68)
Amounts payable	88	17	75	20	112
	88	5	30	9	44

Note

1 Only includes components of payables and other liabilities that are classified as financial liabilities.

35.3.3. Market risk

(a) Foreign exchange risk

General Insurance is exposed to foreign exchange risk through its outstanding claims liability from previously written offshore reinsurance business, predominantly denominated in United States dollars (USD). This exposure is managed using USD forward exchange contracts. General Insurance is also exposed to foreign exchange risk through investments in foreign securities which is managed via the use of cross-currency swaps. A sensitivity analysis showing the impact on profit or loss for changes in foreign exchange rates for exposure as at the balance date with all other variables including interest rates remaining constant is shown in the table below. There is no impact on equity reserves.

GENERAL INSURANCE	2012			2011		
	Exposure at 30 June $m	Change in FX rate %	Profit (loss) after tax $m	Exposure at 30 June $m	Change in FX rate %	Profit (loss) after tax $m
Euro	**38**	**+ 15**	**4**	-	+ 15	-
		– 15	**(5)**	-	– 15	-
GBP	**22**	**+ 15**	**2**	-	+ 15	-
		– 15	**(3)**	-	– 15	-
JPY	**25**	**+ 15**	**2**	-	+ 15	-
		– 15	**(3)**	-	– 15	-
USD	**116**	**+ 15**	**10**	(11)	+ 15	(1)
		– 15	**(15)**	-	– 15	1

(b) Interest rate risk

Interest rate risk exposure arises mainly from investment in interest-bearing securities and from ongoing valuation of insurance liabilities. The investment portfolios hold significant interest-bearing securities in support of corresponding outstanding claims liabilities and are invested in a manner consistent with the expected duration of claims payments. Interest rate risk is also managed by the controlled use of interest rate derivative instruments. The sensitivity of profit and loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. There is no impact on equity reserves. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. The movements in interest rate used in the sensitivity analysis for 2012 have been revised to reflect an updated assessment of the reasonable possible changes in interest rate over the next 12 months given renewed observations and experience in the investment markets during the financial year.

GENERAL INSURANCE	2012			2011		
	Exposure at 30 June $m	Change in interest rate bp	Profit (loss) after tax $m	Exposure at 30 June $m	Change in interest rate bp	Profit (loss) after tax $m
Interest-bearing investment securities (including derivative financial instruments)	**10,988**	**+ 150**	**(293)**	10,696	+ 150	(272)
		– 100	**196**		– 60	108
Other financial liabilities	**(620)**	**+ 150**	**(6)**	(596)	+ 150	(6)
		– 100	**3**		– 60	3

(c) Equity risk

The General Insurance business has exposure to equity risk through its investments in international and domestic equity trusts. The table below presents a sensitivity analysis showing the impact on profit or loss for price movements for exposures as at the balance date with all other variables remaining constant. There is no impact on equity reserves.

GENERAL INSURANCE	2012			2011		
	Exposure at 30 June $m	Change in prices %	Profit (loss) after tax $m	Exposure at 30 June $m	Change in prices %	Profit (loss) after tax $m
Australian equities	**233**	**+ 20**	**33**	-	+ 20	-
		– 20	**(33)**		– 20	-
International equities	**306**	**+ 20**	**43**	86	+ 20	12
		– 20	**(43)**		– 20	(12)

35.3.3. Market risk (continued)

(d) Credit spread risk

General Insurance is exposed to credit spread risk through its investments in interest-bearing securities. This risk is mitigated by incorporating a diversified investment portfolio, establishing maximum exposure limits for counterparties and minimum limits on credit ratings. The table below presents a sensitivity analysis on how credit spread movements could affect profit or loss for its exposure as at the balance date. There is no impact on equity reserves. The movements in credit spread used in the sensitivity analysis for 2012 have been revised to reflect an updated assessment of the reasonable possible changes in credit spread over the next 12 months given renewed observations and experience in the investment markets during the financial year.

GENERAL INSURANCE	2012			2011		
	Exposure at 30 June $m	Change in credit spread bp	Profit (loss) after tax $m	Exposure at 30 June $m	Change in credit spread bp	Profit (loss) after tax $m
Credit exposure (excluding semi-government)	**5,318**	**+ 100**	**(96)**	6,337	+ 60	(60)
		– 75	**72**		– 30	30
Credit exposure (semi-government)	**1,419**	**+ 40**	**(25)**	1,277	+ 20	(9)
		– 40	**25**		– 10	4

35.4. Banking risk management for financial instruments

35.4.1. Credit risk

Banking is exposed to credit risk from traditional lending to customers and receivables from inter-bank, treasury, international trade and capital market activities.

Credit risk is managed on a structured basis with approval decisions being taken within credit approval authorities delegated by the Board. The acceptance and management of credit risk is performed independently as is the setting and maintaining of detailed credit policies and standards. The Bank Credit Risk Committee and the Bank Chief Risk Officer have responsibility for the independent management of credit functions to monitor trends impacting the credit quality of lending portfolios, developing and maintaining risk grading and automated risk assessment systems and managing troublesome and impaired assets.

Credit risk involves a wide spectrum of customers ranging from individuals to large institutions and as such credit risk management is divided into two distinct categories: a statistically managed portfolio and risk-graded portfolio.

The statistically managed portfolio covers consumer business (personal loans and housing loans) and automated credit scoring is widely used to determine customer creditworthiness. Credit scoring is embedded within the Bank's end-to-end automated workflow system that also enforces credit policies and certain business rules. These exposures are generally not reviewed individually unless arrears occur when all collections and recovery actions are managed by a centralised team.

The risk-graded portfolio includes business and corporate exposures. Within this portfolio, exposures are individually assessed and an internal risk grade assigned depending on discrete analysis of each customer or group of related customers' risk profile. Exposures within this portfolio are generally subject to annual (or more frequent) review, including a reassessment of the assigned internal risk grade. In the event of default, collections and recovery activity is managed within a well-defined structure. This process involves initial follow-up by the client manager including regular performance monitoring, reporting and, if required, transfer to a central intensive management or Credit Recovery Unit.

A credit inspection process is in place to review the acceptance and management of credit risk in accordance with the approved risk management framework.

The Bank manages its exposure to credit losses on derivative contracts by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. The International Swaps and Derivatives Association (ISDA) Master Agreement provides a contractual framework for derivatives dealing across a full range of over-the-counter products. This agreement contractually binds both parties to apply close out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 7.3.

35.4.1. Credit risk (continued)

The table below details the Bank's exposure to credit risk from its financial assets and credit commitments as at the balance date. It is prepared on the following basis:

- No adjustments made for any collateral held or credit enhancements
- Impaired loans are those for which the Bank has determined that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. This includes loans that are individually impaired and those forming the group of homogeneous assets in respect of which a collective impairment provision has been calculated. In relation to loans for business purposes, all relevant circumstances surrounding the customer are considered before a loan is considered impaired; and
- An asset is considered past due when any payment under the strict contractual terms have been missed or received late. The amount included as past due is the entire contractual balance, not just the overdue portion.

BANKING

	Receivables due from other banks $m	Trading securities $m	Investment securities $m	Loans, advances and other receivables $m	Credit Commitments [1] $m	Derivatives [1] $m	Total risk $m	Individually provisioned impaired assets $m	Past due > 90 days but not impaired $m	Remaining assets [2] and not impaired $m
2012										
Agribusiness	**-**	**-**	**-**	**3,644**	**124**	**-**	**3,768**	**202**	**24**	**3,542**
Construction	**-**	**-**	**-**	**2,345**	**77**	**-**	**2,422**	**1,264**	**26**	**1,132**
Financial services	**154**	**4,787**	**6,308**	**2,290**	**35**	**512**	**14,086**	**-**	**-**	**14,086**
Hospitality	**-**	**-**	**-**	**1,093**	**35**	**-**	**1,128**	**117**	**4**	**1,007**
Manufacturing	**-**	**-**	**-**	**453**	**25**	**-**	**478**	**14**	**-**	**464**
Professional services	**-**	**-**	**-**	**286**	**10**	**-**	**296**	**4**	**4**	**288**
Property investment	**-**	**-**	**-**	**3,129**	**62**	**-**	**3,191**	**369**	**6**	**2,816**
Real estate - Mortgage	**-**	**-**	**-**	**34,029**	**1,053**	**-**	**35,082**	**26**	**233**	**34,823**
Personal	**-**	**-**	**-**	**393**	**7**	**-**	**400**	**-**	**4**	**396**
Government and public authorities	**-**	**-**	**-**	**1**	**-**	**-**	**1**	**-**	**-**	**1**
Other commercial and industrial	**-**	**-**	**-**	**2,084**	**90**	**-**	**2,174**	**94**	**19**	**2,061**
Total gross credit risk	**154**	**4,787**	**6,308**	**49,747**	**1,518**	**512**	**63,026**	**2,090**	**320**	**60,616**
Impairment provisions							**(537)**	**(392)**	**(39)**	**(106)**
							62,489	**1,698**	**281**	**60,510**
2011										
Agribusiness	-	-	-	3,387	15	-	3,402	216	33	3,153
Construction	-	-	-	3,123	126	-	3,249	1,421	91	1,737
Financial services	226	4,952	5,742	4,632	30	503	16,085	-	-	16,085
Hospitality	-	-	-	1,143	-	-	1,143	49	7	1,087
Manufacturing	-	-	-	568	-	-	568	15	2	551
Professional services	-	-	-	363	-	-	363	5	2	356
Property investment	-	-	-	4,003	-	-	4,003	538	51	3,414
Real estate - Mortgage	-	-	-	29,332	1,150	-	30,482	21	293	30,168
Personal	-	-	-	354	-	-	354	-	6	348
Government and public authorities	-	-	-	3	-	-	3	-	-	3
Other commercial and industrial	-	-	-	2,350	95	-	2,445	116	26	2,303
Total gross credit risk	226	4,952	5,742	49,258	1,416	503	62,097	2,381	511	59,205
Impairment provisions							(564)	(387)	(47)	(130)
							61,533	1,994	464	59,075

Note

1 Credit commitments and derivative instruments represent the credit equivalent amount of the Bank's off balance sheet exposures calculated in accordance with APS 112.

2 Not past due or past due ≤ 90 days.

35.4.1. Credit risk (continued)

(a) Credit quality

The following table provides information regarding the credit quality of the Bank's loans, advances and receivables. Performing loans represent loans that are neither past due nor impaired. Non-performing loans represent loans that are past due and not past due but impaired.

	Past due > 90 days	Not past due or past due ≤ 90 days
Impaired	Non-performing loans	Non-performing loans
Not impaired		Performing loans

BANKING	2012 $m	2011 $m
Performing loans		
Loans, advances and receivables	**47,321**	46,363
Loans, advances and receivables with renegotiated terms	**16**	3
Collective provision for impairment	**(106)**	(130)
	47,231	46,236
Non-performing loans – not impaired		
Non-performing – not impaired	**320**	511
Collective provision for impairment	**(39)**	(47)
	281	464
Non-performing loans – impaired		
Individually impaired	**2,090**	2,381
Specific provision for impairment	**(392)**	(387)
	1,698	1,994
Total Banking loans, advances and receivables	**49,210**	48,694

Ageing of past due but not impaired financial assets is used by Banking to measure and manage emerging credit risks. A summary of the ageing of past due but not impaired loans and advances and other receivables is noted below. The balances of financial assets other than loans, advances and other receivables are all neither past due nor impaired.

BANKING	PAST DUE BUT NOT IMPAIRED					
	0-30 days $m	30-60 days $m	60-90 days $m	90-180 days $m	> 180 days $m	Total $m
2012						
Loans and advances						
Retail banking	**877**	**256**	**114**	**103**	**134**	**1,484**
Business banking	**138**	**25**	**222**	**74**	**9**	**468**
	1,015	**281**	**336**	**177**	**143**	**1,952**
2011						
Loans and advances						
Retail banking	886	301	143	180	119	1,629
Business banking	134	109	45	201	11	500
	1,020	410	188	381	130	2,129

35.4.1. Credit risk (continued)

(b) Collateral management

Collateral is used to mitigate credit risk as the secondary source of repayment in case the counterparty cannot meet their contractual repayment commitments.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Suncorp Group upon extension of credit, is based on management's credit evaluation of the counterparty.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. With more than 60% (2011: 50%) of the Bank's lending being consumer in nature and 98% (2011: 98%) of that secured by residential property, the Bank's exposures are ultimately linked to factors impacting employment and residential property values.

The greatest risk in credit quality is in commercial property markets and deterioration in this sector may lead to increased defaults and write offs.

In the event of customer default, the Bank can take possession of any security held as collateral against the outstanding claim. Any loan security is usually held as mortgagee in possession while the Bank seeks to realise its value through the sale of the property. Therefore, the Bank does not hold any real estate or other assets acquired through the repossession of collateral.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

Collateral and other credit enhancements held by the Bank mitigates the maximum exposure to credit risk as detailed by the concentration on credit risk in note 35.4.1(c).

(c) Concentration of credit risk

Concentration of credit risk is managed by client/counterparty and industry sector. Portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations.

Details of the aggregate number of the Bank's corporate exposures (including direct and contingent exposures) which individually were greater than 5% of the Bank's capital resources (Tier 1 and Tier 2 capital) are as follows:

BANKING	2012	2011
	Number	Number
25 percent and greater	**4**	3
20 percent to less than 25 percent	**1**	-
15 percent to less than 20 percent	**-**	2
10 percent to less than 15 percent	**-**	-
5 percent to less than 10 percent	**5**	4

A structure of industry concentration limits has been developed to monitor exposure levels within the risk-graded portfolio. These are tactical limits upon which business planning and developmental activity is based but also act as guidelines for portfolio concentration purposes.

35.4.2. Liquidity risk

The Bank's liquidity risk is managed using a framework that includes going concern, name crisis scenario, liquidity coverage ratio and net stable funding ratio analysis, minimum high quality liquid asset ratios, minimum liquid asset ratios, liquidity concentration limits and other supplementary management trigger limits.

Funding risk is the risk that the Bank is unable to refinance itself to fund its business operations and growth plans. The Bank's funding risk is managed through the sourcing of retail deposits and long tem funding to provide the majority of core asset portfolio. Funding for the non-core portfolio are managed in line with the management run-off profile expectations to ensure a suitable commensurate run-off profile. Funding capacity is monitored and diversity in our funding portfolio is managed with a consideration for product, tenor, geography and customer concentrations.

The Board Risk Committee approves liquidity policies and reviews relevant risk limits. Liquidity and funding policies are also subject to APRA review. Executive management of liquidity risk is delegated to the Bank Asset and Liability Committee, which reviews risk measures and limits, endorses and monitors the overall Bank funding and liquidity strategy. Operational management of liquidity risk is delegated to the Balance

35.4.2. Liquidity risk (continued)

Sheet Management section of the Bank Treasury. Liquidity risk is independently monitored against approved policies on a daily basis by the Market Risk division and reported to the Bank Chief Risk Officer.

(a) Concentrations of deposits and borrowings

Details of the concentration of financial liabilities used by the Bank to raise funds are as follows:

BANKING	2012	2011
	$m	$m
Australian funding sources		
Retail deposits	**29,588**	27,698
Wholesale funding	**8,698**	8,341
Covered bonds	**1,598**	-
AUD domestic programme	**3,836**	4,988
Securitisation	**3,386**	3,014
	47,106	44,041
Overseas wholesale funding sources		
Foreign exchange retail deposits	**305**	198
European commercial paper and medium-term note market	**5,924**	7,049
Subordinated note programme	**496**	676
United States 144a medium-term note market	**2,125**	2,124
Securitisation	**453**	620
	9,303	10,667
	56,409	54,708
Comprised of the following:		
Deposits from other banks	**-**	301
Other money market deposits	**5,371**	3,752
Amounts owed to other depositors	**24,907**	24,293
Certificates of deposits	**7,466**	6,995
Promissory notes and other liabilities evidenced by paper	**3,715**	3,840
Debt issues	**9,598**	10,151
Other borrowed funds	**5,352**	5,376
	56,409	54,708

(b) Maturity analysis

The following table summarises the maturity profile of Bank's financial liabilities based on the remaining undiscounted contractual obligations.

The cash flows for subordinated notes have been included at their next call date. The total cash flows include both principal and associated future interest payments. Interest is calculated based on liabilities held at balance date, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the balance date.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the less than three months column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

The Bank does not use this contractual maturity information as presented in the liquidity management of the balance sheet. Additional factors as described above are considered when managing the maturity profiles of the business.

35.4.2. Liquidity risk (continued)

(b) Maturity analysis (continued)

BANKING							
2012	Carrying amount $m	At call $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total Cash flows $m
Deposits and short-term borrowings	**41,544**	**10,051**	**23,075**	**8,038**	**973**	**1**	**42,138**
Payables due to other banks	**41**	**41**	**-**	**-**	**-**	**-**	**41**
Payables and other liabilities	**634**	**-**	**634**	**-**	**-**	**-**	**634**
Derivative financial instruments (trading)	**356**	**-**	**356**	**-**	**-**	**-**	**356**
Securitisation liabilities	**3,839**	**-**	**284**	**925**	**2,425**	**757**	**4,391**
Debt issues	**9,598**	**-**	**1,518**	**1,938**	**6,922**	**-**	**10,378**
Subordinated notes	**666**	**-**	**2**	**512**	**216**	**-**	**730**
Preference shares	**762**	**-**	**9**	**767**	**36**	**-**	**812**
	57,440	**10,092**	**25,878**	**12,180**	**10,572**	**758**	**59,480**
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		**-**	**198**	**387**	**698**	**-**	**1,283**
Contractual amounts receivable		**-**	**(79)**	**(322)**	**(559)**	**-**	**(960)**
	2,013	**-**	**119**	**65**	**139**	**-**	**323**
Off-balance sheet positions							
Guarantees entered into in the normal course of business	**-**	**161**	**-**	**-**	**-**	**-**	**161**
Commitments to provide loans and advances	**-**	**6,122**	**-**	**-**	**-**	**-**	**6,122**
	-	**6,283**	**-**	**-**	**-**	**-**	**6,283**
2011							
Deposits and short-term borrowings	39,247	10,134	22,097	7,116	1,401	1	40,749
Payables due to other banks	31	31	-	-	-	-	31
Payables and other liabilities	669	-	669	-	-	-	669
Derivative financial instruments (trading)	277	-	277	-	-	-	277
Securitisation liabilities	3,634	-	352	772	2,564	466	4,154
Debt issues	10,151	-	580	2,384	8,141	-	11,105
Subordinated notes	846	-	180	37	700	-	917
Preference shares	830	-	115	31	774	-	920
	55,685	10,165	24,270	10,340	13,580	467	58,822
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		-	292	654	651	-	1,597
Contractual amounts receivable		-	(150)	(409)	(362)	-	(921)
	2,306	-	142	245	289	-	676
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	165	-	-	-	-	165
Commitments to provide loans and advances	-	6,062	-	-	-	-	6,062
	-	6,227	-	-	-	-	6,227

35.4.3. Market risk

The Bank is exposed to mainly two sources of market risk, being interest rate and foreign exchange (FX) risks. For the purposes of market risk management, these are further broken down into traded and non-traded market risks.

(a) Traded market risk

The Bank trades a range of on-balance sheet interest, foreign exchange and derivative products. Income is earned from spreads achieved through market making and effective trading within the established risk management framework.

Traded interest rate and foreign exchange risks are managed using a framework that includes value at risk (VaR) limits, stress testing, scenario analysis, sensitivity limits and stop loss limits. No one risk metric provides a single sufficient overview of risk and as such VaR forms only a part of the risk framework. Supplementary risk measures, such as stress tests, sensitivity analysis and scenario analysis are undertaken to ensure a more complete overview of traded market risk for risk management. These measures are monitored and reported to the Bank Chief Risk Officer and Bank Asset and Liability Committee for management oversight.

VaR is a statistical estimate of potential loss using historically observed market volatility and correlations between different markets. The VaR model, based on a Monte Carlo simulation methodology, takes into account correlations between different positions and the potential for movements to offset one another within the individual portfolios. This method involves multiple revaluations of the trading books using the most recent two years of historical pricing shifts. The Suncorp Group measures VaR at a 99% confidence level which implies that for every 100 days, the loss should not exceed the VaR on 99 of those days. The model assumes a one day holding period for all positions.

The VaR for the Bank's exposure to traded interest rate and foreign exchange risks for the financial year are as follows:

BANKING	2012			2011		
Traded market risk	Interest rate risk $m	FX risk $m	Combined risk[1] $m	Interest rate risk $m	FX risk $m	Combined risk[1] $m
VaR at end of the financial year	**1.02**	**0.20**	**1.03**	0.60	0.45	0.82
Maximum VaR during the financial year	**1.34**	**0.94**	**1.32**	1.47	0.80	1.60
Minimum VaR during the financial year	**0.12**	**0.04**	**0.20**	0.41	0.04	0.43
Average VaR during the financial year	**0.36**	**0.42**	**0.58**	0.75	0.33	0.91

Note

1 VaR for combined risk is the total trading interest rate and foreign exchange risks, taking into account correlations between different positions in both the interest rate and foreign exchange trading portfolios.

(b) Non-traded interest rate risk

Non-traded interest rate risk in the banking book (IRRBB) is defined as all on balance sheet items and off balance sheet items that create an interest rate risk exposure within the Bank. It does not apply to market risk associated with trading book activities within the Bank (refer note 35.4.3(a)).

Interest rate risk arises from changes in interest rates that expose the Bank to the risk of loss in terms of earnings and/or economic value. There are several sources of IRRBB which includes:

- **Repricing risk:** the risk of loss of earnings and/or economic value as a result of changes in the overall levels of interest rates. This risk arises from mismatches in the interest rate repricing dates of banking book items;
- **Yield curve risk:** the risk of loss of earnings and/or economic value as a result of changes in the relative levels of interest rates at different tenors of the yield curve (that is a change in the slope or shape of the yield curve). This risk arises from mismatches in the interest rate repricing dates of banking book items;
- **Basis risk:** the risk of loss of earnings and/or economic value as a result of differences between the actual and expected interest margins on banking book items, where 'margin' means the difference between the customer interest rate on the items and the implied cost of funds for those items; and
- **Optionality risk:** the risk of loss of earnings and/or economic value as the result of the existence of stand-alone or embedded options, to the extent that the potential for those losses is not included in the measurement of repricing, yield curve or basis risks.

35.4.3. Market risk (continued)

(b) Non-traded interest rate risk (continued)

The main objective of IRRBB management is to maximise and stabilise net interest income in the long term. The IRRBB framework was substantially enhanced in January 2012 as part of the transition to Basel II internal model accreditation. As a result, the methodology for measuring non-traded interest rate sensitivity has been amended. The sensitivity analyses presented below are prepared based the IRRBB framework applicable to the respective financial periods:

- For the financial year ended 30 June 2011 and for the six months ended 31 December 2011 – Risk appetite was set at a Bank level (cash flows inclusive of customer margins), excluding the capital benchmark, and based on contractual pricing information irrespective of the behavioural profile of a position; and
- For the six months ended 30 June 2012 – Risk appetite is defined in terms of risk that can be taken inclusive of the capital benchmark at a transfer priced level. The risk management framework also incorporated behavioural modelling where contractual modelling was not appropriate, optionality risk and basis risk.

IRRBB - Net interest income sensitivity (NIIS)

IRRBB exposures are generated by using underlying reconciled financial position data to generate cash flows using relevant interest rate curves, and a static balance sheet assumption. Contractual cash flows are generated except for products where expected behavioural cash flow modelling is more appropriate, and they are modelled with a profile and at a term that can be statistically supported.

As a measure of shorter term sensitivity, NIIS measures the sensitivity of the banking book earnings over the next 12 months to an instantaneous parallel and non-parallel shock to the yield curve.

For all financial periods presented below, NIIS is measured using a 2% parallel and non-parallel shock to the yield curve to determine the potential adverse change in net interest income in the ensuing 12 month period. In previous financial reports, the sensitivity analysis was prepared using a 1% parallel shock to the yield curve. This assumption is revised as part of the transition to Basel II internal model accreditation.

The results are prepared based on the IRRBB framework applicable to the respective financial period.

BANKING	2012		2011
	Six months ended		Year ended
	30 June 12	31 Dec 11	30 June 11
	$m	$m	$m
IRRBB NIIS (over 12 months) to an adverse 2% parallel or non-parallel instantaneous shock to the yield curve			
Exposure at end of the financial period	**(21)**	**(69)**	(26)
Average monthly exposure during the financial period	**(23)**	**(53)**	(31)
High month exposure during the financial period	**(38)**	**(69)**	(41)
Low month exposure during the financial period	**(10)**	**(29)**	(18)

35.4.3. Market risk (continued)

(b) Non-traded interest rate risk (continued)

Present value sensitivity (PVS)

As a measure of longer term sensitivity, PVS measures the sensitivity of the present value of the net interest income at risk of all known future cash flows in the banking book, to an instantaneous parallel and non-parallel shock to the yield curve. All exposures have their known future cash flows present valued from relevant interest rate curves.

The following table indicates the potential adverse change in PVS of the Bank's statement of financial position. For all financial periods presented below, the change in PVS is based on an adverse 2% parallel or non-parallel instantaneous shock to the yield curve. In previous financial reports, the sensitivity analysis was prepared using a 1% adverse shock. This assumption is revised as part of the transition to Basel II internal model accreditation.

The results are prepared based on the IRRBB framework applicable to the respective financial period.

BANKING	2012		2011
	Six months ended		Year ended
	30 June 12	31 Dec 11	30 June 11
	$m	$m	$m
IRRBB PVS to an adverse 2% parallel or non-parallel instantaneous shock to the yield curve			
Exposure at end of the financial period	**(51)**	**(14)**	(20)
Average monthly exposure during the financial period	**(47)**	**(13)**	(17)
High month exposure during the financial period	**(57)**	**(14)**	(25)
Low month exposure during the financial period	**(29)**	**(12)**	(4)

Present value sensitivity including off balance sheet positions

The Bank also periodically prepares a value at risk type analysis to value asset, liability and off-balance sheet positions under a range of possible interest rate scenarios. Value at risk provides information on the potential adverse change that could occur to the present value of the banking book under a range of possible interest rate scenarios. The interest rate scenarios are derived from historical analysis of interest rates using a one month holding period, and the most adverse of either a 3 month or 2 year history set, at a 97.5% confidence level. A static balance sheet assumption is used.

The results are prepared based on the IRRBB framework applicable to the respective financial period.

BANKING	2012		2011
	Six months ended		Year ended
	30 June 12	31 Dec 11	30 June 11
	$m	$m	$m
IRRBB - VaR - 1 month holding period, 97.5% confidence interval			
Exposure at end of the financial period	**(17)**	**(3)**	(6)
Average monthly exposure during the financial period	**(15)**	**(5)**	(8)
High month exposure during the financial period	**(19)**	**(11)**	(16)
Low month exposure during the financial period	**(10)**	**(3)**	(1)

(c) Non-traded foreign exchange risk

Non-traded foreign exchange risk can arise from having non-AUD items in the banking book, thereby exposing current and future earnings to movements in foreign exchange rates. The objective of foreign currency exchange risk management is to minimise the impact on earnings of any such movements. The policy is to fully hedge any such exposure and accordingly minimise exposure to the risk. All offshore borrowing facilities arranged as part of the overall funding diversification process have been economically hedged in respect of their potential foreign exchange risk through the use of financial derivatives (refer note 35.7).

35.5. Life risk management for financial instruments

35.5.1. Credit risk

Life is exposed to and manages the following key sources of credit risk.

Key sources of credit risk	How are these managed
Investments in financial instruments	Financial instruments are only dealt on recognised exchanges and over-the-counter contracts. The counterparties to over-the-counter contracts are limited to companies with primarily investment grade credit ratings from a recognised credit rating agency and are normally banks operating in Australia. Credit management (credit rating and credit limit controls), and counterparty diversification policies are in place to limit exposure to any one counterparty as a proportion of the investment portfolio.
Reinsurance recoveries	Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with strong credit ratings.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 8.3.

The following table provides information regarding credit risk exposure of Life financial assets, classified according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as non-investment grade.

LIFE

	Credit Rating							
	AAA $m	AA $m	A $m	BBB $m	Non-investment grade $m	Other not rated $m	Investment linked business [1] $m	Total $m
2012								
Cash and cash equivalents	**-**	**177**	**210**	**9**	**-**	**-**	**432**	**828**
Investment securities	**1,250**	**1,071**	**358**	**62**	**6**	**25**	**499**	**3,271**
Life assets	**-**	**435**	**-**	**-**	**2**	**218**	**51**	**706**
Derivatives	**-**	**10**	**-**	**-**	**-**	**-**	**-**	**10**
	1,250	**1,693**	**568**	**71**	**8**	**243**	**982**	**4,815**
2011								
Cash and cash equivalents	77	150	128	-	-	-	310	665
Investment securities	1,823	725	232	27	1	32	615	3,455
Life assets	-	210	97	-	-	346	-	653
Derivatives	-	-	-	-	-	1	3	4
	1,900	1,085	457	27	1	379	928	4,777

Note

1 For investment-linked business, the liability to policyowners is linked to the performance and value of the assets that back those liabilities. Life has no direct exposure to any credit risk in those assets.

All Life financial assets are neither past due nor impaired at balance date except for those included in the following table. An amount is considered past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis below. For investment-linked business, the liability to policyowners is linked to the performance and value of the assets that back those liabilities. Life has no direct exposure to any credit risk in those assets and the table below does not include any financial assets backing investment-linked business.

35.5.1. Credit risk (continued)

LIFE	Neither past due nor impaired	Past due but not impaired				Impaired	Total
		0-3 mths	3-6 mths	6-12 mths	> 12 mths		
	$m	$m	$m	$m	$m	$m	$m
2012							
Premiums outstanding	**-**	**14**	**-**	**-**	**-**	**-**	**14**
Reinsurance recoveries receivable	**56**	**11**	**1**	**1**	**2**	**-**	**71**
Other receivables	**152**	**5**	**3**	**-**	**-**	**16**	**176**
	208	**30**	**4**	**1**	**2**	**16**	**261**
2011							
Premiums outstanding	4	16	-	-	-	-	20
Reinsurance recoveries receivable	62	14	4	3	-	-	83
Other receivables	162	4	2	2	3	38	211
	228	34	6	5	3	38	314

Receivables neither past due nor impaired in the above table are not rated according to the Standard & Poor's counterparty credit ratings. Life does not expect any counterparties to fail to meet their obligations given their credit ratings and therefore does not require collateral or other security to support credit risk exposures.

35.5.2. Liquidity risk

To ensure payments are made when they fall due, Life has the following key facilities and arrangements in place to mitigate liquidity risks:

- investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations
- regularity of premiums received provides substantial liquidity to meet claims payments and associated expenses as they arise; and
- flexibility in investment strategies implemented for investment management to provide sufficient liquidity to meet claims payment as they fall due, based on actuarial assessments.

The following table summarises the maturity profile of Life financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for life insurance and life investment contract policy liabilities based on the discounted estimated timing of net cash outflows.

LIFE	Carrying amount	1 year or less	1 to 5 years	Over 5 years	No term	Investment linked [1]	Total cash flows
	$m	$m	$m	$m	$m	$m	$m
2012							
Payables and other liabilties [2]	**216**	**207**	**-**	**4**	**4**	**1**	**216**
Outstanding claims liabilities	**186**	**129**	**-**	**-**	**57**	**-**	**186**
Net Life policy liabilities	**4,781**	**128**	**593**	**690**	**-**	**3,370**	**4,781**
Unvested policyowner benefits	**366**	**-**	**-**	**-**	**366**	**-**	**366**
Managed funds units on issue	**1,608**	**1,608**	**-**	**-**	**-**	**-**	**1,608**
	7,157	**2,072**	**593**	**694**	**427**	**3,371**	**7,157**
2011							
Payables and other liabilties [2]	253	251	-	-	-	2	253
Outstanding claims liabilities	167	123	-	-	44	-	167
Net Life policy liabilities	5,282	297	739	586	-	3,660	5,282
Unvested policyowner benefits	383	3	-	-	380	-	383
Managed funds units on issue	673	673	-	-	-	-	673
	6,758	1,347	739	586	424	3,662	6,758

Note

1 For investment-linked business, the liability to policyowners is linked to the performance and value of the assets that back those liabilities. Life has no direct exposure to liquidity risk in those liabilities.

2 Only includes components of payables and other liabilities that are classified as financial liabilities.

35.5.3. Market risk

Market risk in Life arises from mismatches between asset returns and guaranteed liability returns, adverse movements in market prices affecting fee income on investment-linked policies and from returns obtained from the investment of shareholders' capital held in each life company.

Management of market risk is most critical for products which involve the investment of significant amounts of money to meet future liabilities and where the returns on those assets either accrue to the shareholder or are not necessarily able to be passed on to policyowners in a timely manner. This includes, for example, assets backing disability income reserves for open claims and participating business. For some non-participating insurance products, such as unit-linked products, market risks are passed on to the policyowner, although as noted, the shareholder's fee revenue may be adversely affected by market falls.

(a) Foreign exchange risk

The statutory funds of the Suncorp Group's Life business invest in overseas assets. In the investment-linked funds any investment returns, whether positive or negative, are passed on to the policyowners. Various guarantees are provided by the non-investment-linked statutory funds, principally in relation to capital and declared interest. The relevant statutory funds maintain reserves in accordance with APRA Prudential Standards (local actuarial Professional Standards for New Zealand) to meet the risk associated with diminution of value associated with foreign exchange risk.

The Life companies invest a portion of investment assets in global equities with foreign currency exposure managed by entering into forward foreign exchange and futures contracts. The Life companies also invest in several Suncorp Group related trusts who enter into forward foreign exchange and future contracts to aim to provide capital appreciation.

A sensitivity analysis showing the impact on profit or loss for changes in foreign exchange rates for exposure as at the balance date with all other variables including interest rates remaining constant is shown in the table below. There is no impact on equity reserves.

LIFE	2012			2011		
	Exposure at 30 June $m	Change in FX rate %	Profit (loss) after tax $m	Exposure at 30 June $m	Change in FX rate %	Profit (loss) after tax $m
USD	**141**	**+ 15**	**13**	129	+ 15	12
		– 15	**(17)**		– 15	(16)
Other [1]	**86**	**+ 15**	**8**	102	+ 15	9
		– 15	**(11)**		– 15	(13)

Note

1 Includes EUR, GBP and JPY.

(b) Interest rate risk

For Life, interest rate risk exposure arises mainly from investment in interest-bearing securities. Interest rate risk arises in respect of financial assets held in the shareholders' funds and the Life statutory funds over liabilities. This is combined with an economic mismatch between the timing of payments to life insurance and life investment contract holders and the duration of the assets held in the statutory funds to back these liabilities. Where the liability to the investment contract holder is directly linked to the value of assets held to back that liability there is no residual interest rate exposure to the shareholder. Accordingly, investment-linked business is excluded from the analysis below.

The sensitivity of profit and loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and that there are concurrent movements in interest rates and parallel shifts in the yield curves. The movements in interest rate used in the sensitivity analysis for 2012 have been revised to reflect updated assessment of the reasonable possible changes in interest rate over the next 12 months given renewed observations and experience in the investment markets during the financial year. There is no impact on equity reserves.

35.5.3. Market risk (continued)

(b) Interest rate risk (continued)

LIFE	2012			2011		
	Exposure at 30 June $m	Change in interest rate bp	Profit (loss) after tax $m	Exposure at 30 June $m	Change in interest rate bp	Profit (loss) after tax $m
Interest-bearing investment securities (including derivative financial instruments) [1]	**2,786**	**+150**	**(60)**	2,590	+150	(60)
		– 60	**40**		– 60	25

Note

1 Excludes interest-bearing investment securities held for investment-linked business as the shareholder has no direct interest rate risk exposure from these investment securities.

(c) Equity risk

Life has exposure to equity risk from equity investments in its investment portfolios. Equity risk is managed by incorporating a diverse holding of Australian and overseas equities (whether direct or through unitised vehicles) and through the controlled use of derivative financial instruments. The table below presents a sensitivity analysis showing the impact on profit or loss for listed equity price movements as at the balance date with all other variables remaining constant. The price risk in relation to unlisted securities is immaterial in terms of the possible impact on profit or loss and equity reserves and has not been included in the sensitivity analysis. After tax impact on profit (loss) uses a corporate tax rate of 30%. Actual after tax impact for Life business may differ. There is no impact on equity reserves.

LIFE	2012			2011		
	Exposure at 30 June $m	Change in equity prices %	Profit (loss) after tax $m	Exposure at 30 June $m	Change in equity prices %	Profit (loss) after tax $m
Listed Australian equities and unit trusts	**890**	**+ 20**	**124**	720	+ 20	139
		– 20	**(124)**		– 20	(139)
Listed international equities and unit trusts	**551**	**+ 20**	**78**	371	+ 20	57
		– 20	**(78)**		– 20	(57)

(d) Credit spread risk

Life is exposed to credit spread risk through its investments in interest-bearing securities. This risk is mitigated by incorporating a diversified investment portfolio, establishing maximum exposure limits for counterparties and minimum limits on credit ratings. The table below presents a sensitivity analysis on how credit spread movements could affect profit or loss for its exposure in direct investment holdings as at the balance date. There is no impact on equity reserves. The movements in credit spread used in the sensitivity analysis for 2012 have been revised to reflect an updated assessment of the reasonable possible changes in credit spread over the next 12 months given renewed observations and experience in the investment markets during the financial year.

LIFE	2012			2011		
	Exposure at 30 June $m	Change in credit spread bp	Profit (loss) after tax $m	Exposure at 30 June $m	Change in credit spread bp	Profit (loss) after tax $m
Credit exposure (excluding semi-government)	**243**	**+ 100**	**(4)**	65	+ 60	-
		– 75	**3**		– 30	-
Credit exposure (semi-government)	**737**	**+ 40**	**(12)**	154	+ 20	(2)
		– 40	**12**		– 10	1

35.6. Corporate risk management for financial instruments

35.6.1. Credit risk

Corporate is exposed to credit risk primary through its investment in financial instruments. To mitigate this risk, financial instruments are only dealt on recognised exchanges and over-the-counter contracts. The counterparties to over-the-counter contracts are limited to companies with primarily investment grade credit ratings from a recognised credit rating agency and are normally banks operating in Australia. Credit management (credit rating and credit limit controls) and counterparty diversification policies are in place to limit exposure to any one counterparty as a proportion of the investment portfolio. No collateral or other credit enhancements are held to mitigate Corporate's exposure to credit risk.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures.

The following table provides information regarding credit risk exposure of Corporate financial assets, classified according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as non-investment grade.

CORPORATE	Credit Rating						
	AAA $m	AA $m	A $m	BBB $m	Non-investment grade $m	Not rated $m	Total $m
2012							
Cash and cash equivalents	**-**	**-**	**202**	**10**	**-**	**-**	**212**
Investment securities	**86**	**109**	**148**	**34**	**-**	**228**	**605**
Accrued interest	**-**	**2**	**2**	**-**	**-**	**-**	**4**
	86	**111**	**352**	**44**	**-**	**228**	**821**
2011							
Cash and cash equivalents	-	54	18	-	-	-	72
Investment securities	121	334	114	2	-	-	571
Accrued interest	1	3	2	-	-	-	6
	122	391	134	2	-	-	649

All Corporate financial assets are neither past due nor impaired as at 30 June 2012 (2011: nil).

35.6.2. Liquidity risk

To ensure payments are made when they fall due, the Corporate investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations.

The following table summarises the maturity profile of Corporate financial liabilities based on the remaining undiscounted contractual obligations.

CORPORATE	Carrying amount $m	1 year or less $m	1 to 5 years $m	Over 5 years $m	Total cash flows $m
2012					
Payables and other liabilities [1]	**110**	**89**	**21**	**-**	**110**
2011					
Payables and other liabilities [1]	56	56	-	-	56

Note

1 Only include components of payables and other liabilities that are classified as financial liabilities.

35.6.3. Market risk

(a) Interest rate risk

For Corporate, interest rate risk exposure arises mainly from investment in interest-bearing securities. Interest rate risk is managed by maintaining a diversified portfolio to protect the value of the underlying assets in the portfolio from large movements. The sensitivity of profit and loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and that there are concurrent movements in interest rates and parallel shifts in the yield curves. There is no impact on equity reserves.

CORPORATE	2012			2011		
	Exposure at 30 June $m	Change in interest rate bp	Profit (loss) after tax $m	Exposure at 30 June $m	Change in interest rate bp	Profit (loss) after tax $m
Interest-bearing investment securities	**605**	**+ 150**	**(2)**	571	+ 150	(5)
		– 100	**2**		– 60	2

(b) Credit spread risk

Corporate is exposed to credit spread risk through its investments in interest-bearing securities. This risk is mitigated by incorporating a diversified investment portfolio, establishing maximum exposure limits for counterparties and minimum limits on credit ratings. The table below presents a sensitivity analysis on how credit spread movements could affect Corporate's profit or loss for its exposure as at the balance date. There is no impact on equity reserves.

CORPORATE	2012			2011		
	Exposure at 30 June $m	Change in credit spread bp	Profit (loss) after tax $m	Exposure at 30 June $m	Change in credit spread bp	Profit (loss) after tax $m
Credit exposure (excluding semi-government)	**320**	**+ 100**	**(3)**	571	+ 60	(3)
		– 75	**2**		– 30	(2)

35.7. Derivative financial instruments and hedging

The Suncorp Group operates in multiple currencies and is a significant borrower and investor in the global markets. Derivatives are used by each business area to mitigate interest rate, foreign exchange and equity price risks. Derivatives used include exchange-traded bills and bond futures, equity index futures, over-the-counter (OTC) forward foreign exchange contracts, interest rate swaps and currency interest rate swaps.

To prevent derivatives being used as a source of gearing, all derivatives have to be wholly or partly cash covered depending on the type of risk undertaken. The investment mandates specifically prohibit the use of derivatives for leveraged trading. Leverage here is defined as creating a portfolio which would have sensitivity to an underlying economic or financial variable which is greater than could be achieved using only physical securities.

The use of derivatives exposes the Suncorp Group to credit risk. Exposure limits have been established with respect to the various asset classes. Within each asset class, derivative exposure limits are identified in the investment mandates and limits have been established on daily transaction levels. For OTC derivatives, authorised counterparties must have a minimum credit rating equivalent to a Standard & Poor's rating of 'A'.

The investment manager is responsible for monitoring these positions to ensure they do not exceed the authorities established in the investment mandate.

Investments

To a limited extent, derivatives are used within the investment portfolios where it is more efficient to use derivatives rather than physical securities. The use of derivatives is consistent with the objectives of the overall investment strategies and is one of the means by which these strategies are implemented.

Hedging of fluctuations in interest rates

Banking seeks to minimise volatility in net interest income through use of interest rate derivatives, primarily vanilla interest rate swaps. The swaps are managed over a three-year period which is approximately the average loan life.

At balance date, Banking had one (2011: one) swap designated as a fair value hedge of a fixed rate note issue and 13 (2011: one) swaps designated as fair value hedges of fixed rate bonds held. All other interest rate swaps designated as hedges are cash flow hedges. The swaps designated as cash flow hedges are hedges of either variable rate mortgages or variable rate short-term debt.

Hedging of fluctuations in foreign currency rates

Banking hedges its exposure to fluctuations in foreign exchange rates through the use of derivatives in the foreign exchange market. The currencies giving rise to this risk are primarily US Dollars, Euro and Pounds Sterling.

Banking hedges its offshore debt issues using cross currency interest rate swaps and foreign exchange swaps. In respect of other financial assets and liabilities held in currencies other than AUD, Banking ensures that the net exposure is kept to an acceptable level through participation in the spot and forward markets.

All cross currency interest rate swaps entered into by the Suncorp Group are designated as hedges using the split approach. Under this approach the benchmark rate component of the swap is accounted for as a fair value hedge and the margin component as a cash flow hedge. Banking has elected to fair value its Euro Commercial Paper portfolio through the profit or loss on the basis that it is economically hedged by forward foreign exchange contracts. Both the changes in the fair value of the forward contracts and the debt issue are recognised. The fair value of forward foreign exchange contracts used as economic hedges of monetary liabilities in foreign currencies where hedge accounting is not applied as at 30 June 2012 was $70 million (2011: $39 million).

General Insurance has forward foreign exchange contracts in relation to the overseas liabilities portfolio. Under the contracts, General Insurance agrees to exchange specified amounts of United States dollars at an agreed future date, at a specified exchange rate.

35.7. Derivative financial instruments and hedging (continued)

The following table details the derivatives used in the hedging of fluctuations in interest rates and foreign exchange rates.

CONSOLIDATED	2012		2011	
	Fair value hedges $m	Cash flow hedges $m	Fair value hedges $m	Cash flow hedges $m
Hedging of fluctuations in interest rates				
Notional value of interest rate swaps designated as hedges	**1,179**	**11,276**	379	14,105
Fair value:				
net receive interest rate swaps	**24**	**24**	8	12
net pay interest rate swaps	**(58)**	**(133)**	(1)	(102)
	(34)	**(109)**	7	(90)
		Split approach $m		Split approach $m
Hedging of fluctuations in foreign exchange rates				
Notional value of cross currency swaps designated as hedges		**6,688**		9,144
Fair value:				
net pay cross currency swaps		**(1,822)**		(2,306)

Banking also hedges against the foreign currency exposure which results from the Commonwealth government guarantee expense. The underlying exposure is calculated as the present value of the 1% fee charged to Banking for those selected offshore liabilities, over the term of the liabilities. The hedge is a cash flow hedge using foreign currency positions with foreign currency translation movements deferred to equity, and released to profit or loss as the fee expense is incurred. As at 30 June 2012 the unrealised loss from foreign currency fluctuation deferred to equity was $14 million (2011: $37 million) for government guarantee fee hedges. During the current financial year, Banking deferred to equity $2 million, and released $21 million of foreign currency loss previously deferred to equity to profit or loss (2011: deferred to equity $25 million and released $18 million of foreign currency loss previously deferred to equity to profit or loss).

Cash flows relating to the cash flow hedges are expected to impact the profit or loss in the following periods:

CONSOLIDATED	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total expected cash flows $m
2012				
Forecast receivable cash flows	**282**	**329**	**-**	**611**
Forecast payable cash flows	**(339)**	**(378)**	**-**	**(717)**
	(57)	**(49)**	**-**	**(106)**
2011				
Forecast receivable cash flows	468	209	-	677
Forecast payable cash flows	(535)	(211)	-	(746)
	(67)	(2)	-	(69)

Consolidated losses of $74 million (2011: losses of $36 million) on derivatives held in qualifying fair value hedging relationships, and gains of $74 million (2011: gains of $35 million) representing changes in the fair value of the hedged items attributable to the hedged risk are recognised in profit or loss.

36. Auditors' remuneration

	2012	2011	2012	2011	2012	2011
	KPMG Australia		Overseas KPMG firms		Other Auditors	
	$000	$000	$000	$000	$000	$000
Audit and review services						
Audit and review of financial reports	**5,467**	5,040	**1,457**	1,412	**29**	61
Other regulatory audits	**1,621**	1,286	**13**	25	**-**	-
	7,088	6,326	**1,470**	1,437	**29**	61
Other services						
In relation to other assurance, actuarial, taxation and other non-audit services	**1,266**	1,495	**73**	39	**-**	-
Total Auditors' remuneration	**8,354**	7,821	**1,543**	1,476	**29**	61

37. Subsequent events

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

Directors' declaration

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

(a) the financial statements and notes, and the Remuneration Report in the Directors' Report, set out on pages 13 to 150, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Suncorp Group's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Group Chief Executive Officer and Group Chief Financial Officer for the financial year ended 30 June 2012.

3 The directors draw attention to note 2.1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dr Zygmunt E Switkowski
Chairman

Patrick J R Snowball
Managing Director

22 August 2012

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Suncorp Group Limited (the Company), which comprises the Consolidated statement of financial position as at 30 June 2012, and Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the year ended on that date, notes 1 to 37 comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the Suncorp Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2.1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Suncorp Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Suncorp Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Suncorp Group is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the Suncorp Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.1.

Report on the Remuneration Report

We have audited sections 2 and 3 of the Remuneration Report included on pages 17 to 37 of the Directors' Report for the year ended 30 June 2012 that are described as audited. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the information set out in the Remuneration Report of Suncorp Group Limited for the year ended 30 June 2012, that are described as audited, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Paul Reid
Partner

Brisbane

22 August 2012