We help people build and protect their dreams

Consolidated Financial Report 2007

Contents

Suncorp-Metway Ltd
ABN 66 010 831 722

Consolidated Financial Report 2007

Balance sheets

as at 30 June 2007

	Note	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Assets					
Cash and cash equivalents	12	**1,093**	538	**378**	217
Receivables due from other banks		**42**	26	**42**	26
Trading securities	13	**4,291**	3,773	**4,291**	3,773
Investment securities	14	**20,920**	11,011	**9,688**	2,095
Loans, advances and other receivables	15	**47,013**	39,220	**42,568**	36,421
Bank acceptances of customers		**886**	316	**886**	316
Reinsurance and other recoveries	17	**1,404**	548	**–**	–
Deferred insurance assets	18	**446**	223	**–**	–
Investments in associates and joint ventures	19	**385**	138	**–**	–
Due from subsidiaries		**–**	–	**4,435**	3,955
Property, plant and equipment	20	**320**	131	**31**	32
Investment property	21	**221**	196	**–**	–
Goodwill and intangible assets	22	**7,391**	1,124	**–**	–
Other assets	23	**489**	270	**211**	215
Total assets		**84,901**	57,514	**62,530**	47,050
Liabilities					
Deposits and short term borrowings	24	**30,916**	27,683	**30,916**	27,683
Payables due to other banks		**25**	120	**25**	120
Bank acceptances		**886**	316	**886**	316
Payables and other liabilities	25	**3,191**	778	**1,146**	403
Current tax liabilities	10	**121**	135	**116**	135
Employee benefit obligations	26	**236**	139	**–**	–
Provisions	27	**12**	15	**7**	7
Due to subsidiaries		**–**	–	**10,249**	7,534
Deferred tax liabilities	10	**469**	67	**2**	1
Unearned premiums and unexpired risk liabilities	28	**3,206**	1,400	**–**	–
Outstanding claims liabilities	29	**7,281**	4,272	**–**	–
Gross policy liabilities	30	**7,986**	3,906	**–**	–
Unvested policy owner benefits	30	**242**	270	**–**	–
Outside beneficial interests	31	**1,256**	1,002	**–**	–
Securitisation liabilities	32	**7,948**	5,700	**–**	–
Bonds, notes and long term borrowings	33	**6,338**	5,504	**6,284**	5,504
Subordinated notes	34	**2,202**	1,466	**1,198**	1,271
Other financial liabilities		**51**	56	**–**	–
Preference shares	35	**144**	250	**144**	250
Total liabilities		**72,510**	53,079	**50,973**	43,224
Net assets		**12,391**	4,435	**11,557**	3,826
Equity					
Share capital		**10,362**	2,973	**10,436**	3,015
Reserves		**216**	121	**199**	124
Retained profits		**1,812**	1,341	**922**	687
Total equity attributable to equity holders of the Company	36	**12,390**	4,435	**11,557**	3,826
Minority interests	36	**1**	–	**–**	–
Total equity	36	**12,391**	4,435	**11,557**	3,826

The consolidated Balance sheet includes the assets and liabilities of the statutory funds of the Group's life insurance businesses which are subject to restrictions under the Life Insurance Act 1995.

The Balance sheets are to be read in conjunction with the accompanying notes.

Income statements

for the year ended 30 June 2007

	Note	CONSOLIDATED 2007 $m	2006 $m	COMPANY 2007 $m	2006 $m
Revenue					
Banking interest revenue	6	**3,447**	2,887	**3,224**	2,705
Banking interest expense	6	**(2,537)**	(2,039)	**(2,107)**	(1,777)
		910	848	**1,117**	928
Banking fee and commission revenue	6, 39(a)	**220**	202	**207**	189
Banking fee and commission expense	6, 39(a)	**(80)**	(73)	**(83)**	(75)
		140	129	**124**	114
General insurance premium revenue	6, 40(a)	**3,680**	2,644	**–**	–
Life insurance premium revenue	6, 41(a)	**288**	136	**–**	–
Reinsurance and other recoveries revenue	6	**650**	335	**–**	–
General insurance investment revenue					
– insurance funds	6, 40(a)	**269**	230	**–**	–
– shareholder funds	6, 40(a)	**224**	216	**–**	–
Life insurance investment revenue	6, 41(a)	**1,060**	805	**–**	–
Other revenue	6	**324**	237	**1,135**	1,083
		7,545	5,580	**2,376**	2,125
Expenses					
Operating expenses	7	**(1,980)**	(1,431)	**(1,372)**	(1,144)
General insurance claims expense	40(a)	**(2,766)**	(1,948)	**–**	–
Life insurance claims expense	41(a)	**(165)**	(78)	**–**	–
Outwards reinsurance premium expense	40(a), 41(a)	**(277)**	(145)	**–**	–
Increase in net policy liabilities	41(a)	**(573)**	(497)	**–**	–
Decrease in unvested policy owner benefits	41(a)	**47**	55	**–**	–
Outside beneficial interests		**(226)**	(168)	**–**	–
Non-banking interest expense		**(94)**	(16)	**(38)**	(24)
		(6,034)	(4,228)	**(1,410)**	(1,168)
Share of profits of associates and joint ventures	19	**57**	25	**–**	–
Profit before impairment losses on loans and advances and tax		**1,568**	1,377	**966**	957
Impairment losses on loans and advances	9	**(25)**	(31)	**(14)**	(24)
Profit before tax		**1,543**	1,346	**952**	933
Income tax expense	10	**(479)**	(430)	**(118)**	(116)
Profit for the year		**1,064**	916	**834**	817
Attributable to:					
Equity holders of the Company	36	**1,064**	916	**834**	817
Minority interests	36	**–**	–	**–**	–
Profit for the year		**1,064**	916	**834**	817

	Note	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	11	158.60	161.27
Diluted earnings per share	11	158.60	161.23

The consolidated Income statement includes the income and expenses of the statutory funds of the Group's life insurance businesses which are subject to restrictions under the Life Insurance Act 1995.

The Income statements are to be read in conjunction with the accompanying notes.

Statements of recognised income and expense

for the year ended 30 June 2007

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Items of income and expense (net of tax)				
Change in fair value of assets available for sale	**2**	1	**–**	–
Cash flow hedges	**50**	31	**49**	30
Other transfers direct to equity	**–**	1	**–**	–
Net income / expense recognised directly in equity	**52**	33	**49**	30
Profit for the year	**1,064**	916	**834**	817
Total recognised income and expense for the year	**1,116**	949	**883**	847
Total recognised income and expense for the year attributable to:				
Equity holders of the Company	**1,116**	949	**883**	847
Minority interests	**–**	–	**–**	–
Total recognised income and expense for the year	**1,116**	949	**883**	847
Effect of change in accounting policy				
Effect of adoption of AASB 132, AASB 139, AASB 4, AASB 1023 and AASB 1038 on 1 July 2005:				
Net (decrease) / increase in retained profits	**–**	(52)	**–**	21
Net (decrease) in cash flow hedge reserve	**–**	(17)	**–**	(12)
	–	(69)	**–**	9

The consolidated Statements of recognised income and expense includes the income and expenses of the statutory funds of the Group's life insurance businesses which are subject to restrictions under the Life Insurance Act 1995.

The Statements of recognised income and expense are to be read in conjunction with the accompanying notes.

Statements of cash flows

for the year ended 30 June 2007

	Note	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Cash flows from operating activities					
Interest received		**3,870**	3,262	**3,206**	2,686
Premiums received		**3,622**	3,033	**–**	–
Reinsurance and other recoveries received		**599**	322	**–**	–
Dividends received		**181**	175	**557**	545
Recoveries on loans previously written-off		**–**	1	**–**	–
Other operating revenue received		**572**	571	**861**	745
Interest paid		**(2,548)**	(2,161)	**(2,095)**	(1,765)
Claims paid		**(3,038)**	(2,700)	**–**	–
Outwards reinsurance premiums paid		**(289)**	(251)	**–**	–
Operating expenses paid		**(2,209)**	(766)	**(973)**	(1,090)
Income tax paid – operating activities		**(195)**	(255)	**(464)**	(437)
		565	1,231	**1,092**	684
(Increase) decrease in operating assets:					
Banking securities		**(1,076)**	(612)	**(1,077)**	(611)
Loans, advances and other receivables		**(5,901)**	(3,736)	**(6,663)**	(5,115)
Increase (decrease) in operating liabilities:					
Deposits and short term borrowings		**3,843**	289	**6,528**	3,
Net cash from operating activities	49	**(2,569)**	(2,828)	**(120)**	(1,319)
Cash flows from investing activities					
Proceeds from disposal of plant and equipment and intangible software		**–**	–	**1**	–
Proceeds from sale of insurance investments		**23,037**	11,274	**–**	–
Proceeds from sale of investment securities		**–**	–	**338**	–
Proceeds from sale of investments in associates and joint ventures		**–**	83	**–**	–
Acquisition of subsidiary, net of cash acquired	5	**(1,656)**	–	**(1,896)**	–
Payments for plant and equipment and intangible software		**(246)**	(94)	**–**	–
Payments for purchase of insurance investments		**(22,162)**	(11,574)	**–**	(22)
Payments for purchase of investments in associates and joint ventures		**(47)**	(2)	**–**	–
Payments for acquisition of development property		**(23)**	–	**(23)**	–
Income taxes paid – investing activities		**(309)**	(182)	**–**	–
Net cash from investing activities		**(1,406)**	(495)	**(1,580)**	(22)
Cash flows from financing activities					
Proceeds from issue of shares		**1,152**	10	**1,160**	10
Proceeds from issue of subordinated notes		**275**	520	**275**	520
Proceeds from net increase in bonds, notes and long term borrowings		**3,949**	3,480	**1,242**	1,597
Payments for net increase in treasury shares		**(33)**	(16)	**–**	–
Payment on maturity of subordinated notes		**(275)**	(520)	**(275)**	(520)
Dividends paid on ordinary shares		**(427)**	(792)	**(430)**	(796)
Net cash from financing activities		**4,641**	2,682	**1,972**	811
Net increase (decrease) in cash and cash equivalents		**666**	(641)	**272**	(530)
Cash and cash equivalents at beginning of financial year		**444**	1,085	**123**	653
Cash and cash equivalents at end of financial year	12	**1,110**	444	**395**	123

The consolidated Statement of cash flows includes the cash flows of the statutory funds of the Group's life insurance businesses which are subject to restrictions under the Life Insurance Act 1995.

The Statements of cash flows are to be read in conjunction with the accompanying notes.

1. Reporting entity

Suncorp-Metway Ltd ("the Company") is a company domiciled in Australia. The address of the Company's registered office is Level 18, 36 Wickham Terrace, Brisbane, QLD, 4000. The consolidated financial report of the Company for the financial year ended 30 June 2007 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities. The Group's primary lines of business are banking, general insurance and wealth management.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has 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 report of the Group also complies with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board. The Company's financial report does not comply with IFRSs as the Company has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Disclosure and Presentation* in respect of certain disclosure requirements.

The financial report was authorised for issue by the directors on 27 August 2007.

(b) Basis of measurement

The consolidated financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments held to back General Insurance liabilities and Life Insurance policy liabilities, financial instruments classified as available-for-sale, investment property, short-term offshore borrowings and life investment contract liabilities.

(c) Functional and presentation currency

The financial reports are presented in Australian dollars which is the Company's functional currency and the functional currency of the majority of the Group.

(d) Rounding

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (amended by Class Order 05/641 effective 28 July 2005 and Class Order 06/51 effective 31 January 2006) and in accordance with the Class Order, amounts in the financial report have been rounded to the nearest one million dollars unless otherwise stated.

(e) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated accounting assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

Information about the following significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial reports are described in the notes indicated below:

Business combinations (refer note 5)

Impairment of goodwill (refer note 22)

Impairment of other intangible assets (refer note 22)

Banking collective provision for impairment (refer note 39(l))

General Insurance outstanding claims liabilities (refer note 40(h))

Life Insurance gross policy liabilities (refer note 41(i))

Valuation of investment property (refer note 21)

Measurement of defined benefit obligations (refer note 26)

Measurement of share-based payments (refer note 26)

Provisions and contingencies (refer notes 27 and 47)

Valuation of financial instruments (refer notes 43 and 44)

Commitments (refer note 46)

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in notes 39(l), 40(h) and 41(i) for each major line of business.

3. Significant accounting policies

Except as described in the subsequent notes, the accounting polices set out below have been applied consistently to all periods presented in the consolidated financial report, and have been applied consistently by Group entities.

The Group has elected to early adopt AASB 101 *Presentation of Financial Statements* (October 2006).

In the prior financial year the Group adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments Recognition and Measurement* in accordance with the transitional rules of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards.* This change has been accounted for by adjusting the opening balances of retained earnings and reserves at 1 July 2005, as disclosed in the reconciliation of movements in equity (note 36).

The following standards and amendments are available for early adoption but have not been applied by the Group in these financial reports:

- AASB 7 *Financial Instruments: Disclosure* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the Group's financial instruments and share capital.

3. Significant accounting policies (continued)

- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009.
- AASB 2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment of Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*.
- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Group's financial reports for the year ending 30 June 2008, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e., 1 July 2004 and 1 July 2005, respectively).
- Interpretation 11 AASB 2 *Share-based Payment – Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial reports of the entity receiving the services. Interpretation 11 will become mandatory for the Group's 2008 financial report.
- AASB 2007-1 *Amendments to Australian Accounting Standards* arising from AASB Interpretation 11 amends AASB 2 *Share-based Payment* to insert the transitional provisions of IFRS 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007.
- AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED151 and Other Amendments*. These amendments arise as a result of the AASB decision that, in principle, all options that currently exist under IFRSs should be included in the Australian equivalents to IFRSs and additional Australian disclosures should be eliminated, other than those considered particularly relevant in the Australian reporting environment. This standard is applicable for reporting periods on or after 1 July 2007.

The initial application of these standards and amendments is not expected to have a material impact on the financial results of the Company and the Group. Most of these standards and amendments will only impact disclosures in the financial reports.

a) Principles of consolidation

(i) Subsidiaries

Consolidation is the aggregation of the financial reports of all entities within a group comprising the parent entity and its subsidiaries and the elimination of intra group transactions and balances. Subsidiaries are entities including companies, managed investment schemes or trusts controlled by the Company.

The consolidated financial reports incorporate the assets, liabilities and profit and loss of all subsidiaries. The Company and its subsidiaries together are referred to as the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Profit or loss of subsidiaries is included in the consolidated Income Statement for the period that the Company controls the entity.

Investments in subsidiary companies are carried at their cost of acquisition in the Company's financial report. Investments in subsidiary unit trusts are carried at their fair value in the relevant parent's financial reports.

In relation to the Group's life insurance business, which is conducted by Suncorp Life and Superannuation Limited and Asteron Life Limited ("the Life Companies"), assets, liabilities, revenues and expenses are recognised in the consolidated financial report irrespective of whether they relate to policy owners or the shareholder. A policy owner is one who holds a policy with the Life Companies. The shareholder represents the Life Companies' interest in the Statutory Funds. 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 Insurance Act 1995 ("the Life Act")*.

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 Act*.

3. Significant accounting policies (continued)

a) Principles of consolidation (continued)

(ii) Special purpose entities
The Group has established a number of special purpose entities (SPEs) for trading and investment purposes. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

(iii) Transactions eliminated on consolidation
The effects of all balances and transactions between entities in the Group are eliminated from the Balance Sheet and Income Statement in full.

(iv) Outside beneficial interests
Outside beneficial interests occur when the Group does not hold 100% of the shares or units in a subsidiary where such shares or units are recognised as liabilities in the subsidiary. Outside beneficial interests are also recognised as liabilities. Related items of income and expense are recognised in the Income Statement at their gross amounts, with the offsetting amount attributable to outside interests recognised as a separate expense. Outside beneficial interests generally arise in relation to managed investment schemes, as the units in these schemes are classified as debt in accordance with AASB 132 *Financial Instruments: Disclosure and Presentation*.

(v) Minority interests
Minority interests occur when the Group does not hold 100% of the shares or units in a subsidiary where such shares or units are recognised as equity in the subsidiary. Minority interests are also recognised as equity. Related items of income and expense are recognised in the Income Statement at their gross amounts, with the offsetting amount attributable to minority interests disclosed separately in the Income Statement.

(vi) Associates
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding of between 20% to 50% of the voting rights. The Income Statement includes the Group's share of the profit or loss of associates on an equity accounted basis whilst the Group maintains significant influence. Applying the equity accounted basis, the Group's interest in the entity is initially recorded at cost and is adjusted thereafter for changes in the Group's share of the net assets of the entity. Investments in associates are accounted for in the parent entity financial reports using the cost method.

If the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

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

(vii) Joint venture entities
Joint venture entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Interests in joint venture entities are accounted for in the consolidated financial report using equity accounting principles. The Income Statement of the Group includes its share of the profit or loss of the jointly controlled entity, whilst joint control is maintained.

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

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

(ix) Securitisation
The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold as securities to the Apollo Trusts ("Trusts").

Group
Securitised loans are recognised in the Group's Balance Sheet and Income Statement as the Group is entitled to any residual income of the program after all payments due to investors and associated costs of the program have been met.

The Trusts fund their purchase of the loans by issuing floating-rate pass-through debt securities. The securities are issued by the Trusts. These are represented as securitisation liabilities of the Group, however the Group does not stand behind the capital value or the performance of the securities or the assets of the Trusts. The Group 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 Group is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support.

Suncorp-Metway Ltd ("the Company")
The Company receives the residual income of the Trusts and under AASB 139 *Financial Instruments: Recognition and Measurement*, interest rate risk from the Trusts is transferred back to the Company by way of interest rate swaps. Accordingly, the original sale of the mortgages from the Company to the Trusts fails the de-recognition criteria set out in AASB 139. The Company continues to reflect the securitised loans in their entirety and also recognises a financial liability to the Trusts. The Trusts then recognise a financial asset due from the Company and a financial liability to the holders of the notes issued by the Trusts. The interest payable on the intercompany financial asset / liability represents the return on an imputed loan between the Company and the Trusts and is based on the interest income under the mortgages, the fees payable by the Trusts and the net interest income expense not separately recognised under interest rate and basis swaps transacted between the Company and the Trusts.

All transactions between the Trusts and the Company are eliminated on consolidation.

3. Significant accounting policies (continued)

(b) Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed by the Group at the date of exchange, plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price at the date of exchange unless it is demonstrated that this price is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The subsidiary's identifiable assets, liabilities and contingent liabilities are measured at their fair values at the acquisition date, irrespective of the extent of any minority interests. If the cost of acquisition is more than the fair value of the Group's share of the identifiable net assets acquired, the excess is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement, after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(c) Foreign currency

(i) Foreign currency transactions

Transactions denominated in foreign currencies are initially translated to Australian dollars at the spot exchange rates ruling at the date of the transaction. Foreign currency monetary assets and liabilities at balance date are translated to Australian dollars at the spot rates of exchange current on that date.

The resulting differences on monetary items are recognised in the Income Statement as exchange gains and losses in the financial year in which the exchange rates change. Foreign currency non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency non-monetary assets and liabilities that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

Gains and losses on translation of insurance non-monetary investments denominated in foreign currencies are recorded as a component of changes in the fair value of investments where the investments are classified as fair value through the profit or loss. Where the investments are classified as available-for-sale financial assets, the gains and losses are included in the fair value reserve in equity.

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 the 'Derivative financial instruments' and 'Hedging' policies (refer notes 3(d) and (e) respectively).

(ii) Financial reports of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in the foreign exchange reserve, a separate component of equity.

(d) Derivative financial instruments

The Group uses derivative financial instruments in the foreign exchange, interest rate and equity markets to hedge the Group's assets and liabilities or as part of the Group's trading and investment activities.

Banking activities

The Bank utilises foreign exchange and interest rate derivative financial instruments for hedging activities and trading purposes.

Derivative financial instruments are initially recognised at trade date at fair value excluding transaction costs and are subsequently remeasured at their fair value as at the reporting date. The resulting fair value gain or loss is recorded in the Income Statement except where derivatives qualify for hedge accounting, in which case the treatment of the gain or loss will depend on the type of hedge relationship as set out in the 'Hedging' policy (refer note 3(e)).

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

(i) Traded derivatives

Changes in the fair values of traded derivatives are immediately recognised in the Income Statement. All derivatives that do not qualify as an effective hedging derivative or an embedded derivative are treated as a traded derivative.

(ii) 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 the profit and loss. Otherwise, the embedded derivative is accounted for on the same basis as the host contract.

Insurance activities

The insurance companies utilise derivative financial instruments to hedge underlying exposures in investments backing insurance liabilities. Derivative financial instruments are not held for speculative purposes. Interest rate derivatives are used to hedge interest rate risks inherent in the business. Equity options and futures are purchased to hedge exposures arising from equity investments. In addition, foreign exchange derivatives are entered into by the general insurance companies in order to hedge exchange rate risks arising from offshore liabilities.

3. Significant accounting policies (continued)

(d) Derivative financial instruments (continued)

(ii) Embedded derivatives (continued)

Insurance activities (continued)

Derivative financial instruments are initially recognised at fair value, being the last price at trade date excluding transaction costs and are subsequently remeasured at their fair value as at the reporting date. The resulting fair value gain or loss is recorded in the Income Statement.

Hedge accounting has been adopted by the general insurance companies for the interest rate swaps hedging the interest rate risk arising on fixed rate subordinated debt issues. These hedge relationships have been designated as fair value hedges.

(e) Hedging

Banking activities

Derivative financial instruments are initially recognised at trade date at fair value excluding transaction costs and are subsequently remeasured at their fair value as at the reporting date. The treatment of the resulting fair value gain or loss will depend on the type of hedge relationship as set out below.

The Group nominates specific derivatives as being hedging derivatives provided the criteria specified in AASB 139 *Financial Instruments: Recognition and Measurement* relating to hedging are satisfied. The treatment of the fair value gain or loss depends on the nature of the hedge relationship.

On entering into a hedging relationship, the 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 Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

(i) 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.

Where an effective hedge relationship is established, equity is adjusted for the lesser of the cumulative fair value gain or loss on the derivative and the cumulative change in fair value on the hedged item from the inception of the hedge. Any fair value gain or loss on the derivative not taken to equity is recognised in the Income Statement immediately and represents hedge ineffectiveness.

Amounts accumulated within the equity account are released to the Income Statement in the same periods during which the hedged item affects the Income Statement.

When a hedging derivative expires or is sold, terminated or exercised, the hedge relationship is revoked or no longer meets the criteria for hedge accounting and the forecast hedged transaction is still expected to occur, amounts accumulated in equity to that point are recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects the profit or loss. When a forecast transaction is no longer expected to occur the amounts accumulated in equity are released to the Income Statement immediately.

(ii) 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.

Where an effective hedge relationship is established, fair value gains or losses on the derivative are recognised in the Income Statement immediately as are any changes in the fair value of the hedged item that are attributable to the hedged risk. The hedged item is recognised at fair value, for the risk being hedged, in the Balance Sheet.

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 amortised to the Income Statement over the period to when the hedged item will mature.

(f) 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, highly liquid short-term investments and money at short call, net of outstanding bank overdrafts. They are carried at the gross value of the outstanding balance. Bank overdrafts are shown within financial liabilities in the Balance Sheet unless there is a right of offset.

(g) Receivables due from other banks

Receivables due from other banks include nostro balances and settlement account balances. They are carried at the gross value of the outstanding balance.

(h) Financial assets

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Group commits to buy or sell the asset.

Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Group has transferred substantially all risk and rewards of ownership.

Banking activities

A financial asset is recognised on the Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or substantially all the risks and rewards associated with ownership of the financial asset are transferred.

3. Significant accounting policies (continued)

(h) Financial assets (continued)

Banking activities (continued)

Initial recognition is at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset except for financial assets at fair value through profit or loss which exclude transaction costs.

Financial assets are classified into one of the following categories upon initial recognition. At each reporting date measurement depends upon the chosen classification.

(i) Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- it is classified as held for trading; or
- upon initial recognition it is designated by the Group as at fair value through profit or loss.

Derivatives that are not specifically designated as being part of an effective hedge relationship are classified as Trading Securities.

The assets are valued at fair value each reporting date based on the current bid price where available. Where a quoted price is not available one of the following valuation techniques are used to value the assets at balance date: recent arms length transactions, discounted cash flow analysis, option pricing models or other valuation techniques commonly used by market participants.

Movements in the fair value are taken immediately to the Income Statement.

Interest income on traded assets is recorded in Net Interest Income and the fair value movement on traded assets is recorded in gains less losses on financial instruments at fair value.

(ii) Loans and receivables

Loans and other non-lease receivables include all forms of lending and direct finance provided to customers, such as variable, controlled and fixed rate loans, overdrafts, and other such facilities.

Loans are recognised when cash is advanced to the customers.

Loans and receivables are measured at each reporting date at amortised cost using the effective interest method. This method allocates the estimated net future cash receipts over the expected life of the financial instrument.

Interest income is recorded in the Income Statement.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are measured at each reporting date at amortised cost using the effective interest method. If investments no longer qualify as a held-to-maturity investment, they are accounted for as an available-for-sale investment from that point forward.

(iv) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to a need for liquidity or changes in interest rates or exchange rates.

Available-for-sale investments are measured at each reporting date at fair value with gains and losses arising from changes in fair value being recognised directly into equity.

General Insurance activities

The assets of the General Insurance business are assessed under AASB 1023 *General Insurance Contracts* and are measured under AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 140 *Investment Property* as applicable.

(i) Assets backing general insurance liabilities

The Group has designated financial assets held in portfolios that match the average duration of a corresponding insurance liability as assets backing general insurance liabilities (referred to as insurance funds). These assets include:

- Receivables from policyholders, intermediaries and reinsurers;
- Investments including property, financial assets and related receivables held in an investment portfolio specifically designated to pay insurance liabilities; and
- Deferred acquisition costs and deferred reinsurance assets.

Assets which back general insurance liabilities are initially recognised at fair value and subsequently measured at fair value through profit or loss. Assets which back general insurance liabilities are derecognised when the contractual rights to the cash flows from the financial assets expire, or substantially all the risks and rewards associated with ownership of the financial assets are transferred.

Investment assets are valued at fair value each reporting date based on the current bid price where available. Where a quoted price is not available one of the following valuation techniques are used to value the assets at balance date: recent arms length transactions, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants.

Receivables are valued at fair value which is approximated by taking the initially recognised amount and reducing it for credit risk as appropriate. Short duration receivables with no stated interest rate are normally measured at original invoice amount.

(ii) Assets not backing general insurance liabilities

Assets not backing general insurance liabilities are measured on the bases described in AASB 139 *Financial Instruments: Recognition and Measurement*. These assets include:

- Investments and related receivables held in an investment portfolio allocated to shareholder's capital and reserves;
- Receivables and other assets related to the insurance managed funds business;
- Assets including cash that are designated to pay tax liabilities and other non-insurance related payables;
- Investments in subsidiaries and joint venture entities and intercompany receivables; and
- Intangible assets including goodwill on acquisition.

3. Significant accounting policies (continued)

(h) Financial assets (continued)

General Insurance activities (continued)

(ii) Assets not backing general insurance liabilities (continued)

Investment assets are valued at fair value each reporting date based on the current bid price where available. Where a quoted price is not available one of the following valuation techniques are used to value the assets at balance date: recent arms length transactions, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. Movements in the fair value are taken immediately to the Income Statement.

Loans and receivables are measured at each reporting date at amortised cost using the effective interest method. Investments in subsidiaries are recorded at cost less any accumulated impairment losses. Investments in joint venture entities are measured using equity accounting principles.

Life Insurance activities

The assets of the Life Insurance business are measured under AASB 1038 *Life Insurance Contracts* and, as applicable, AASB 139 *Financial Instruments: Recognition and Measurement*.

(i) Assets backing life insurance policy liabilities

The Group has determined that all assets within its statutory funds are assets backing policy liabilities. These assets are designated as fair value through profit or loss, and are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under accounting standards. These assets include:

- Receivables are recognised at fair value. Given the short term nature of most receivables, the recoverable amount approximates fair value.
- Investment securities comprise holdings in unlisted managed investment schemes, futures and forward foreign exchange contracts. Movements in the fair values between each reporting date, being the last price on those dates, are recognised in the Income Statement.
- Owner-occupied property is measured using the revaluation model, at fair value with movements in fair value recognised directly in equity.
- Premium debtors relate to policies of life insurance and are measured at present value with movements recognised in the Income Statement.
- Deferred acquisition costs on life investment contracts comprise the amortised incremental variable distribution costs incurred when acquiring new business (refer to 'Deferred acquisition costs' policy for recognition and measurement policy).
- Reinsurance and other recoveries on life insurance contracts are measured at present value with movements recognised in the Income Statement.
- Other receivables include outstanding settlements on investment sales, distributions receivable and loans.

(ii) Assets not backing policy liabilities

Financial assets held within the shareholder fund and its subsidiaries do not back life insurance contract liabilities or life investment contract liabilities. Except where specifically stated otherwise, all financial assets and all non-financial assets have been designated at fair value to the extent permitted under accounting standards. Adjustments to the value of such assets are recognised in the Income Statement when the corresponding accounting standards allow such treatment. The following assets are not held at fair value:

- Investments in subsidiary companies are recorded at cost less any accumulated impairment losses. On consolidation, the investment in subsidiaries is eliminated.
- Loans and other receivables are measured at amortised cost less accumulated impairment losses.

Funds management activities

(i) Available-for-sale investments

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to a need for liquidity or changes in interest rates or exchange rates.

Available-for-sale investments are measured at each reporting date at fair value with gains and losses arising from changes in fair value being recognised in equity.

(ii) Fair value through profit or loss

Financial assets not classified as Available-for-sale are designated as fair value through profit or loss and valued in a similar manner to those assets classified this way from banking activities.

(i) Investment property

Investment properties are held to earn rental income and/or capital appreciation. They are initially recorded at cost at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition, and subsequently measured at fair value at each reporting date.

Gains or losses arising from changes in the fair value of investment properties are included in the Income Statement, as part of investment revenue, for the period in which they arise.

(j) Lease receivables and other lease transactions

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.

(i) Finance leases

Finance leases, including leveraged leases, in which the Group is the lessor, are recognised in the Balance Sheet as Loans, Advances and Other Receivables. They are recorded on the commencement of the lease 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 the Income Statement based on a constant periodic rate of return on the Group's net investment in the finance lease. Leveraged leases use a constant periodic pre-tax rate of return. Where a change occurs in the estimated lease cash flows or available tax benefits at any stage during the term of the lease, the total lease profit is recalculated for the entire lease term and apportioned over the remaining lease term.

3. Significant accounting policies (continued)

(j) Lease receivables and other lease transactions (continued)

When an asset is acquired by means of a finance lease, it is recognised at fair value or if lower, the present value of the minimum lease payments discounted at the interest rate implicit in the lease. The discounted amount is established as an asset at the beginning of the lease term and depreciated on a straight-line basis over its expected life. A corresponding liability is also established and each lease payment is allocated between the principal component and the interest expense.

(ii) 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 pattern of benefits to be derived from the leased property.

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.

(k) Property, plant and equipment

(i) Recognition and initial measurement

An item of property, plant and equipment is recognised (capitalised) as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost, which comprises:

- purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of removal and site restoration, if any.

Subsequent additional costs are only capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Group in future years. Where these costs represent separate components, they are accounted for as separate assets and are separately depreciated over their useful lives. Costs that do not meet the criteria for subsequent capitalisation are expensed as incurred.

(ii) Subsequent measurement

The Group has elected to use the cost model (as opposed to using the revaluation model) to measure property, plant and equipment after recognition. The carrying amount is the initial cost less accumulated depreciation and any accumulated impaired losses.

(iii) Depreciation

The depreciable amount of each item of property, plant and equipment, including buildings (other than buildings included in investments integral to general insurance activities) but excluding freehold land, is depreciated over its estimated useful life to the Group. The straight-line method of depreciation is currently adopted for all assets. Assets are depreciated from the date they become available for use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Useful lives and depreciation methods are reviewed at each annual reporting period. Residual values, if significant, are reassessed annually.

The depreciation rates used for each class of asset in the current and comparative periods are as follows:

Category	Rate
Buildings (excluding integral plant)	2.5 %
Leasehold improvements	10.0% to 20.0%
Motor vehicles	15.0%
Technology hardware	33.3%, or 20.0% in limited instances
Automatic teller machines	20.0%
Desktop computer equipment	25.0%, or up to 50.0% in limited instances
Other computer equipment	20.0% to 33.3%
Other plant and office equipment	10.0% to 20.0%

(iv) Retirement

The carrying amount of property, plant and equipment is derecognised upon disposal or where no future economic benefits are expected from its use. The gain or loss arising from the derecognition is recognised in the Income Statement when the item is derecognised.

(l) Intangible assets

(i) Initial recognition and measurement

An intangible asset representing the present value of in-force business of customer contracts is recognised on acquisition of a portfolio of general and life insurance contracts. The amount recognised represents the present value of future profits embedded in acquired insurance contracts, determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. The expected future profits generated from these customers renewing their policies is also recognised as an intangible asset, customer relationships. Where the relationship with the customer is through a distribution channel, the expected future profits to be received from the customers are recognised as a distribution relationships intangible asset.

Intangible assets are stated at cost less any accumulated amortisation and any accumulated impairment losses (refer 'impairment' policy, note 3(n)). 'Cost' 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. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at the acquisition date.

Expenditure on internally generated goodwill, research costs and brands is recognised in the Income Statement as an expense as incurred.

(ii) Subsequent expenditure

Subsequent expenditure on intangible assets (not acquired in a business combination) is capitalised only when it increases the originally assessed future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3. Significant accounting policies (continued)

(l) Intangible assets (continued)

(iii) Amortisation

Amortisation is charged to the Income Statement 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 intangible assets unless such lives are indefinite. An intangible asset is regarded as having an indefinite useful life when, based on all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. Where the asset is deemed to have an indefinite life, it is not amortised but tested for impairment at least on an annual basis.

Where applicable, intangible assets are amortised from the date they are available for use and the amortisation period and method are reviewed on an annual basis.

The useful lives of the intangible assets held are outlined in note 22.

(iv) Goodwill

Business combinations prior to 1 July 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under generally accepted accounting principles prior to the adoption of Australian equivalents to IFRSs.

Business combinations since 1 July 2004

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of joint venture entities is included in investment in joint venture entities. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

(m) Deferred acquisition costs

General Insurance activities

Deferred acquisition costs

Acquisition costs include commissions and other selling and underwriting costs incurred in obtaining general insurance premiums. 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 the Income Statement in subsequent reporting periods.

Recoverability

Deferred acquisition costs are recognised as assets to the extent that the related unearned premiums exceed the sum of the deferred acquisition costs and the present value of both future expected claims and settlement costs, including an appropriate risk margin. Where there is a shortfall, the deferred acquisition cost asset is written down and if insufficient, an unexpired risk liability is recognised.

Deferred reinsurance premiums

Deferred reinsurance premiums are recognised as part of Deferred Insurance Assets in the Balance Sheet. The amortisation of deferred reinsurance premium is in accordance with the pattern of reinsurance service received. The amount deferred represents the future economic benefit to be received from reinsurance contracts.

Life Insurance activities

Acquisition costs that are available for deferral on life investment contracts are the incremental variable distribution costs incurred when acquiring new business. For life insurance contracts, the costs of acquiring new business include commissions, certain advertising, policy issue and underwriting costs, agency expenses and other sales costs. All such life insurance contract costs are implicitly deferred through Margin on Services ("MoS") accounting. The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative.

For investment contracts, all incremental acquisition costs are deferred and recognised as an asset in the Balance Sheet. The amount of the deferred acquisition costs are assessed at each reporting date and the asset is amortised as the revenue to which those costs relate is recognised. All other acquisition costs are expensed as incurred.

The acquisition costs deferred for investment contracts are determined as the lower of actual incremental costs incurred and the allowance for the recovery of those costs from the premiums or policy charges (as appropriate for each policy class).

(n) Impairment

Assets of the Group 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.

Goodwill acquired in a business combination, assets that have an indefinite useful life and intangible assets not yet available for use have their recoverable amount estimated annually.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the Income Statement unless the asset has previously been revalued. In that case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Income Statement.

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.

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 Group's investment in each of its business lines, which are its primary reporting segments.

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.

(i) Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate computed at initial recognition of these financial assets. Receivables with a short duration are not discounted. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Significant accounting policies (continued)

(n) Impairment (continued)

(i) Calculation of recoverable amount (continued)

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through Interest Income.

(ii) Reversal of impairment

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. The impairment loss is reversed, in the Income Statement, only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded. An impairment loss recognised for goodwill is not reversed.

Banking activities

(i) Impairment of loans and receivables

Loans and receivables carried at amortised cost using the effective interest method are subject to an impairment assessment to determine if there is objective evidence that any loan is impaired at each balance date. 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 the Income Statement.

Specific impairment provisions are recognised for all loans where there is objective evidence that an individual loan is impaired. Specific impairment provisions are based on the carrying amount of the loan and the present value of expected future cash flows. Where loans are not assessed as individually impaired, they are classified into groups of loans with similar credit risk characteristics and collectively assessed for impairment. Collective impairment provisions are based on historical loss experience adjusted where appropriate for current observable data. The amount necessary to bring the impairment provisions to their assessed levels, after write-offs, is charged to the Income Statement. The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through Interest Income.

(ii) General reserve for credit loss

The Australian Prudential Regulation Authority ("APRA") requires an allocation of the collective provision determined in accordance with Australian Accounting Standards between a portion that is considered "specific" in nature and a portion that is considered "general" in nature. Only the part of the Group's collective provision attributable to model risk, will be considered "general" in nature. Should the level of eligible provisioning be insufficient relative to the provisioning benchmark of 0.5% of risk weighted assets, then a portion of retained earnings equivalent to the shortfall is transferred to the general reserve for credit losses.

Change in accounting policy

During the financial year, the Group has changed its 'Impairment' accounting policy and established a general reserve for credit losses through an allocation of retained profits in accordance with APRA's requirements for loan provisioning. This change in accounting policy has been recognised retrospectively and comparatives have been restated. There was no impact on the Income Statement. In relation to the Balance Sheet, the change resulted in a reserve of $48 million being established as at 1 July 2005 (30 June 2006: $93 million; and 30 June 2007: $119 million). Further disclosures are included in note 36.

(o) Financial liabilities

Financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the financial liability, except for financial liabilities at fair value through profit or loss which exclude transaction costs. A financial liability is derecognised when it is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires.

Financial liabilities are classified into one of the following categories upon initial recognition. At each reporting date measurement depends upon the chosen classification.

(i) Financial liabilities at fair value through profit or loss

A financial liability at fair value through profit or loss is a financial liability that meets either of the following conditions:

- it is classified as held for trading; or
- upon initial recognition it is designated by the Group as at fair value through profit or loss.

The Group designates its short term offshore borrowing program as being at fair value through the profit or loss. This designation is made on the basis that the program is hedged by a portfolio of foreign exchange swaps which are accounted for as fair value through profit or loss due to their classification as a derivative.

Fair value is determined using the offer price where available. Movements in the fair value are recognised in the Income Statement.

The accounting treatment for deposits and borrowings designated as being part of a fair value hedge relationship is described in the 'Derivative financial instruments' and 'Hedging' policies.

Financial liabilities arising from investment contracts are measured at fair value based on future settlement amount under the contract. Changes to the fair value are recognised in the Income Statement in the period in which they occur.

(ii) Financial liabilities at amortised cost

Financial liabilities, other than financial liabilities at fair value through profit or loss and financial liabilities designated as part of effective fair value hedging relationships, are subsequently measured at amortised cost using the effective interest method.

(iii) Financial guarantee contract liabilities

Liabilities arising from financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the measurement requirements of a provision and the amount initially recognised less cumulative amortisation.

3. Significant accounting policies (continued)

(p) Employee entitlements

(i) Short term employee benefits

Wages, salaries and annual leave

Liabilities for unpaid wages, salaries and annual leave due within 12 months are recognised in the Balance Sheet. The liability is measured at undiscounted amounts using pay rates expected to be effective when the liability is to be paid in respect of employees' services up to the reporting date. Related on-costs such as workers' compensation and payroll tax are also included in the liability.

Sick leave

Sick leave entitlements are non-vesting and are paid only upon valid claims for sick leave by employees. No liability for sick leave has been recognised as experience indicates that on average, sick leave taken each financial year is less than the entitlement accruing in that period. This experience is expected to recur in future financial years.

Short term bonus plans

A liability is recognised for short-term bonus plans when the benefit calculations are formally documented and determined before signing the financial reports and past practice supports the calculation.

Other leave and non-monetary benefits

The cost associated with maternity leave and paternity leave as well as non-monetary benefits such as car parking, payments of professional memberships and discounts is recognised in the period in which the employee takes the benefits. A liability is not recognised for any non-accumulating benefits employees have not taken during the period.

(ii) Post-employment benefits (superannuation)

The Group contributes to both defined contribution and defined benefit superannuation schemes. Contributions are charged to the Income Statement as the obligation to pay is incurred. Contributions outstanding at reporting date are treated as liabilities. The defined benefit plans provide defined lump sum benefits based on years of service and final average salary. The defined contribution plans receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The asset and liability recognised in the Balance Sheet in respect of defined benefit plans is the lower of:

- the present value of the defined benefit obligation at the Balance Sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs; 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.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to the Income Statement. Past service costs are recognised immediately in the Income Statement.

(iii) Other long term employee benefits

Long service leave

A liability for long service leave is recognised in the Balance Sheet. The liability is measured 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.

Annual leave

A liability for annual leave which will not be settled within 12 months after the reporting date is recognised in the Balance Sheet. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Related on-costs such as workers' compensation and payroll tax are also included in the liability.

(iv) 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 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.

(v) Share-based payments

The Group operates several equity-settled, share-based compensation plans. For further details, refer to note 26.

Immediately vesting compensation

Shares granted under the Exempt Employee Share Plan vest immediately at grant date. Although the value paid to each employee is determined by a cash amount, the payment is made in shares (with no cash alternative) and is therefore treated as a share-based payment transaction.

The total expected cost is recognised in the Income Statement during the financial year the services are rendered. The total expected cost is determined by considering the expected amount per person (the fair value) and non-market factors such as eligibility requirements and staff attrition rates.

Future vesting compensation

Shares granted under the Executive Performance Share Plan (EPSP) vest over a pre-determined period from grant date (generally three years). The value of these long term incentives is recognised as an expense in the Income Statement on a straight line basis over the vesting period.

The value is calculated as: fair value at grant date x expected number of shares to be granted.

Where shares do not eventually vest, the treatment of the previously recognised expense depends upon the reason the shares did not vest:

3. Significant accounting policies (continued)

(p) Employee entitlements (continued)

(v) Share-based payments (continued)

- If a non-market condition is not satisfied (eg an unfulfilled service period) the expense is reversed in the Income Statement in the period when the condition was not satisfied;
- If a market condition is not satisfied (eg Total Shareholder Return not being achieved) the expense is not reversed.

Fair value

The fair value of the shares is the market price of the shares adjusted for the terms and conditions upon which the shares were granted. This is measured using a Monte-Carlo simulation. Once determined, fair value does not change throughout the vesting period unless the terms and conditions of the grant are modified.

Number of shares

The number of shares reflect the best estimate of shares expected to vest at the end of the vesting period and this estimate is revised if indicated by subsequent information. Non-market conditions (eg fulfilment of service period) are taken into account when determining this best estimate, whilst market conditions are not. If shares do eventually vest, any unamortised balance is expensed at the end of the vesting period.

Purchase of shares on-market

Where shares provided to employees under the EPSP are purchased on the Australian Stock Exchange, the purchase cost is recognised as treasury shares in the Group's Balance Sheet. The fair value of the shares is recognised in the Income Statement over the vesting period. The difference between the purchase cost and fair value remains in equity.

Options

As all options under the Executive Option Plan were granted prior to 7 November 2002, the Group has elected not to apply AASB 2 *Share-based Payment* to the options and therefore the granting of the options does not impact the Income Statement.

The consideration received on exercise of options issued is recorded in share capital.

(q) Provisions

A provision is a liability of uncertain timing or amount which is recognised in the Balance Sheet when:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- the amount can be reliably estimated.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

(r) Outstanding claims liability

General Insurance activities

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Group. If all the possible values of the outstanding claims liability are expressed as a statistical distribution, the central estimate is the mean of that distribution.

Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. Features and trends of claims experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected. Projected future payments include an allowance for inflation and superimposed inflation and are discounted to present values by applying risk free discount rates. Also included is an allowance for future claims handling costs, reinsurance and third party recoveries and an additional risk margin to allow for the inherent uncertainty in the central estimate of the outstanding claims liability. The details of risk margins and the process for determining the risk margins are set out in note 40(i).

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and the direct and indirect costs of settling those claims.

The expected future payments are discounted to present value using a risk free rate.

(s) Unexpired risk liability

General Insurance activities

Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums liability in relation to such policies after the deduction of any deferred acquisition costs ("Liability Adequacy Test"). The provision for unexpired risk is calculated separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio. Any unexpired risk liability remaining after writing off deferred acquisition costs is recognised immediately in the Income Statement.

The Liability Adequacy Test assesses whether the net unearned premium liability less any related deferred acquisition costs is sufficient to cover future claims costs for in-force policies. Future claims costs are calculated as the present value of the expected cash flows relating to future claims, and includes a risk margin to reflect inherent uncertainty in the central estimate.

The 75% level of sufficiency is used to measure future claims costs for the purpose of this test, being the minimum probability of adequacy required by APRA for Australian licensed insurers. This basis differs from the Group's level of confidence applied to outstanding claims liabilities that is approximately 90%. The level of confidence applied to the Liability Adequacy Test is considered appropriate given the purpose and nature of the test which is to highlight deficiencies in product pricing following an analysis of the general insurance business' profit margins after having regard to the regulatory minimum.

3. Significant accounting policies (continued)

(t) Policy liabilities

Contracts entered into by the Life Companies are classified as either insurance or investment. A life insurance contract is an insurance contract or a financial instrument with a discretionary participation feature, regulated under the *Life Act* and includes risk business, lifetime annuities, traditional and participating business. A life investment contract is a contract which is regulated under the *Life Act* but which does not meet the definition of a life insurance contract and includes non-participating investment business and immediate term certain annuities.

The life insurance policy liability valuation determines the capital and retained profits of the statutory funds and the shareholder fund. The components for life insurance contracts and life investment contracts are reported on the Balance Sheet as gross policy liabilities, current period bonuses, policy liabilities ceded to reinsurers and unvested policy owner benefits. Movements in these balances drive the profit emergence and are reported in the Income Statement, including the proposed transfer to the shareholder fund in respect of participating business.

(i) Insurance contracts

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as Margin on Services ("MoS"). Under MoS, the excess of premium received over expected claims and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service). The movement in life insurance contract liabilities recognised in the Income Statement reflects the release of this margin.

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (premiums, claims, expenses and profit margins to be released in future periods) are projected into the future. The liability is calculated as the net present value of these projected cash flows 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. Where the benefits are not linked to the performance of the backing assets, a risk-free discount rate is used.
The risk-free discount rate is determined by the Appointed Actuary. For Suncorp Life & Superannuation Limited this is based on the Commonwealth Government bond rate, having regard to the nature, structure and term of the contract liabilities. For Asteron Life Limited this is based on the interbank swap rate with adjustments for credit risk and liquidity premium.

An accumulation method may be used if it produces results that are not materially different from those produced by a projection method. This method has been used for some Group risk business, where the liability is based on an unearned premium reserve, less an explicit allowance for deferred acquisition costs, and a reserve for incurred but not reported claims.

Participating policies are entitled to share in the profits that arise from participating business. This profit sharing is governed by the *Life Act* and the life insurance companies' constitution. The participating policy owner profit sharing entitlement is treated as an expense in the financial reports.

<u>Allocation of operating profit and unvested policyholder benefits</u>

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyholders by applying the MoS principles in accordance with the *Life Act*.

Once profit is allocated to participating policyholders it can only be distributed to these policyholders.

Profit allocated to participating policyholders is recognised in the Income Statement as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyholders (ie unvested), and that which has been allocated to specific policyholders by way of bonus distributions (ie vested), are included within life insurance contract liabilities.

Bonus distributions to participating policyholders are merely a change in the nature of the liability from unvested to vested and, as such, do not alter the amount of profit attributable to shareholders.

(ii) Investment contracts

Life investment contracts consist of a financial instrument and a management services element. The financial instrument element represents the unit liability to the policyholder and is measured at fair value, with a minimum equal to the amount payable on demand. Movements in fair value are recognised through the Income Statement. The management services element refers to activities and cashflows arising from management services provided, representing the deferral of fees yet to be earned and expenses yet to be recognised and is measured at fair value, refer the 'Deferred acquisition costs' policy note (3m).

(u) Unvested policy owner benefits

Unvested policy owner benefits are policy owner retained profits as defined in the *Life Act*. These are amounts that have been allocated to participating policy owners generally, but have not been included in policy liabilities at the reporting date. These amounts are shown as a separate liability due to policy owners.

(v) Subordinated notes

Subordinated notes are initially recognised at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method other than those designated as part of an effective fair value hedging relationship. Interest payments and accruals in relation to subordinated notes are classified as a finance cost.

(w) Preference shares

Preference share capital is recognised as a liability as it is redeemable on a specific date at the option of the holder. The capital is initially recognised at fair value and subsequently measured at amortised cost. Dividends are charged as interest expense to the Income Statement on an accruals basis.

3. Significant accounting policies (continued)

(x) Share capital

Ordinary shares are classified as equity.

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

(ii) Treasury shares

If a subsidiary acquires any of the Company's own shares, referred to as treasury shares, those shares are deducted from consolidated equity at cost. No gain or loss on treasury shares is recognised in the consolidated Income Statement.

(iii) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at reporting date.

Where a dividend is declared post-reporting date but prior to the date of the financial reports, disclosure of the declaration is made in the financial reports but no provision is made.

(iv) 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.

(y) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the Balance Sheet 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 in the Balance Sheet but are disclosed in the financial reports 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.

(z) Commitments

Commitments are not recorded in the Balance Sheet but are disclosed in the financial report at their face value.

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 disclosed as commitments at their face value.

(aa) Revenue

Banking activities

(i) Interest revenue and expense

Interest revenue and expense are recognised in the Income Statement for all interest bearing instruments measured at amortised cost using the effective interest method. These instruments include loans, advances and other receivables and deposits and short term borrowings.

The effective interest method uses the effective interest rate to allocate interest income and expense over the relevant accounting period for the financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

This calculation includes certain fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums. Transaction costs include acquisition costs such as commissions paid to mortgage loan originators and lease brokerage and issue costs associated with wholesale debt issues.

(ii) Non-interest revenue

Non-yield related application and activation lending fees received are recognised as income 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, are recognised on an accruals basis when the service is provided.

Lending fees that are considered an integral part of the effective interest rate are recognised within interest revenue.

Fees from profit-share loans are recognised when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity.

Dividends from subsidiaries are brought to account when they are provided for in the financial reports of the subsidiaries. Dividends from listed corporations are recognised as income on the date the shares are quoted ex-dividend.

Fair value gains and losses from financial assets and liabilities at fair value through the profit and loss are recognised in the Income Statement immediately.

Insurance activities

(i) General insurance premium revenue

Premium revenue comprises amounts charged to policyholders (direct premiums) or other insurers (inwards reinsurance premiums) for insurance policies. Premium includes applicable levies and charges such as fire service levies, NSW Insurance Protection Tax and Workers' Compensation levies, excludes stamp duty collected on behalf of state governments and is recognised net of goods and services tax.

Premium revenue is recognised in the Income Statement when it has been earned, that is, from the date of attachment of the risk, over the period of the insurance policy, which is usually one year. Over this policy period the premium collected is earned in accordance with the pattern of the underlying exposure to risk expected under the insurance contract. In most cases the exposure to risk is assumed to be even over the policy period. Where this is not the case, the pattern of exposure to risk is determined by other methods such as previous claims experience or in some limited cases statutory formulae. For reinsurance business premium is recognised from the date of attachment of the risk over the period of indemnity.

3. Significant accounting policies (continued)

(aa) Revenue (continued)

Insurance activities (continued)

(i) General insurance premium revenue (continued)

At reporting date any proportion of premium revenue received and receivable but not earned in the Income Statement is recognised in the Balance Sheet as an unearned premium liability. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods.

Unclosed business is that which has not yet been entered in the policy administration systems but the date of attachment of risk is prior to reporting date. Premiums on unclosed business are brought to account by reference to the prior years' experience and information that has become available between the reporting date and the date of completing the financial reports.

(ii) Life insurance premium revenue

Premiums received include premiums for life insurance contracts and life investment contracts. The premium recorded as revenue in the Income Statement relates to life insurance contracts. The components of premium that relate to life investment contracts are in the nature of deposits and are recognised as liabilities. These amounts are treated as a movement in policy liabilities.

Premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised as revenue on an accruals basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included as outstanding premiums in the Balance Sheet. Premiums due after but received before the end of the financial year are shown as premiums in advance in the Balance Sheet.

(iii) Life insurance reinsurance and other recoveries receivable

Policy claims recoverable from reinsurers are recognised as revenue at the time they come into effect.

(iv) General insurance reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(v) Reinsurance commission revenue and expenses

Reinsurance commission revenue and expenses are recognised in the Income Statement as they accrue.

(vi) Investment revenue

Interest

Interest income is recognised on an effective yield basis.

Dividends

Dividends from listed companies are recognised as income on the date the shares are quoted ex-dividend. Dividends from subsidiaries and associated entities are brought to account when they are declared in the financial reports of the subsidiaries and associated entities. Dividend revenue is recognised net of any franking credits. Distributions from listed and unlisted unit trusts are recognised on the date the unit value is quoted ex-distribution.

Rental Income

Rental income from operating leases is recognised on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of service rendered through the provision of the leased asset.

Financial and investment property assets at fair value through profit or loss

Changes in the fair value of financial and investment property assets are recognised as revenue or expenses in the Income Statement in the reporting period in which changes occur. These are calculated as follows:

Condition of asset	Basis of calculation of change in fair value
Held throughout the period	Closing fair value less opening fair value
Sold during the period	Consideration received less opening fair value
Purchased during the period	Closing fair value less cost of purchase

(vii) Insurance managed funds income

The Group manages insurance funds for external clients. Insurance managed funds income is earned from the provision of these insurance portfolio management services including premium collection and claims processing for the external clients. Insurance managed funds income and other income is recognised as the service is provided.

(viii) Fees and other revenue

Fees are charged to customers in connection with investment contracts and other financial services contracts. Revenue is recognised as services are provided. In some cases services are provided at the inception of the contract while other services are performed over the life of the contract.

Investment contracts consist of a financial instrument and a management services element. The payment by the policyholder includes the amount to fund the financial instrument and an entry fee for the origination of the contract. In many cases, that entry fee is based on commission paid to financial planners for providing initial advice. Entry fees from investment contracts are deferred and recognised over the average expected life of investment contracts. Deferred entry fees are presented as an 'Other Liability' on the Balance Sheet. The financial instrument is classified as an investment contract and is measured at fair value.

The revenue that can be attributed to the origination service is recognised at inception. Any commission paid related to that fee is also recognised as an expense at that time.

Fees of the shareholder fund including ongoing investment management services and other services provided are charged on a regular basis, usually daily, and are recognised as income as the service is provided.

Other income is recognised as revenue in the accounting period in which the services are rendered.

Funds management activities

(i) Fees and other revenue

Fees received for asset management are recognised as revenue in the accounting periods in which the services are rendered.

3. Significant accounting policies (continued)

(ab) Acquisition costs

General Insurance activities

Underwriting expenses include acquisition costs and other underwriting expenses.

Acquisition costs include commissions and other selling and underwriting costs incurred in obtaining general insurance premiums.

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.

Other underwriting expenses are all expenses other than acquisition costs or claims expenses that are incurred in the course of ordinary activities of the general insurance business.

Life Insurance activities

(i) Life insurance contracts

The value and future recovery of life insurance contracts acquisition costs are determined according to Margin on Services ("MoS") techniques.

Acquisition costs are amortised over the period that they will be recovered and the deferral and amortisation is recognised in the Income Statement as an increase/decrease in net life insurance policy liabilities.

Acquisition losses are recognised at inception in the Income Statement.

(ii) Life investment contracts

Incremental costs incurred in selling new life investment contracts are deferred. Deferred acquisition costs for life investment contracts are amortised in the Income Statement in accordance with the expected earning pattern of the associated revenue.

(ac) Levies and charges

General Insurance activities

Levies and charges imposed on the general insurance business by various authorities are expensed in the Income Statement on a basis consistent with the recognition of premium revenue. These include Fire Brigade charges, Medical Care and Injury Services Levy, NSW Insurance Protection Tax and Workers' Compensation levies. The portion of levies and charges payable at reporting date relating to unearned premium is recorded as a prepayment. A liability is recognised for levies and charges payable at the reporting date.

(ad) Claims expense

General Insurance activities

Claims expense represents payments for claims and the movement in outstanding claims liabilities. Claims represent the benefits paid or payable to the policyholder 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 the Income Statement as losses are incurred which is usually the point in time when the event giving rise to the claim occurs.

Life Insurance activities

(i) Life insurance contracts

Life insurance contract claims are separated into their expense and withdrawal components. The component that relates to the bearing of risks is treated as an expense. Other claim amounts, which are in the nature of withdrawals, are recognised as a decrease in life insurance contract liabilities.

Claims are recognised when the liability to the policyholder under the policy contract has been established or upon notification of the insured event, depending on the type of claim.

(ii) Life investment contracts

There is no claims expense in respect of investment contracts. Amounts paid to policyholders in respect of investment contracts are withdrawals and are recognised as a decrease in investment contract liabilities.

(ae) Outwards reinsurance premium expense

General Insurance activities

Premium ceded to reinsurers is recognised by the Group as outwards reinsurance premium expense in the Income Statement 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 treated as a prepayment.

Life Insurance activities

Where portions of the policy are reinsured the ceded premiums are recognised in the Income Statement as reinsurance expense.

Premiums ceded to reinsurers are recognised as expenses in accordance with the pattern of gross premium received, being for facultative, proportional and non-proportional reinsurance.

(af) Basis of expense apportionment

Life Insurance activities

Expenses are incurred in relation to the acquisition and maintenance of life insurance and life investment contracts, in addition to expenses incurred with respect to investment management and other administrative activities.

Expenses have been apportioned in accordance with Division 2 of Part 6 of the *Life Act*.

Expenses excluding investment management fees, which are directly identifiable, have been apportioned between policy acquisition and policy maintenance on the basis of the objective when incurring each expense, and the outcome achieved. Where allocation is not feasible between the disclosure categories, expenses have been allocated as maintenance expenses. Expenses which are directly attributable to an individual policy or product are allocated directly to the statutory fund within which the class of business to which that policy or product belongs. All indirect expenses charged to the Income Statement are equitably apportioned to each class of business. The expense apportionment basis is in line with the principles set out in the Life Insurance Actuarial Standards Board Valuation Standard (AS 1.04: *Valuation of Policy Liabilities*) and New Zealand Society of Actuaries Professional Standard Number 3 *Determination of Life Insurance Policy Liabilities*.

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.

3. Significant accounting policies (continued)

(ag) Income tax

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial report. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Balance Sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities, including derivative contracts, provision for employee entitlements, tax losses carried forward and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantially enacted at the Balance Sheet date are used to determine deferred income tax.

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.

Where an item, which gives rise to a temporary difference, is recognised in or against equity, the deferred tax is also recognised in or against equity. For example, the deferred tax relating to fair value re-measurement of available-for-sale assets and cash flow hedges which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the Income Statement together with the deferred gain or loss.

AASB 1038 *Life Insurance Contracts* requires shareholder and policy owner tax to be included in income tax expense in the Income Statement. The majority of life insurance tax is allocated to policy liabilities and does not affect profit attributable to equity holders of the Company.

Tax consolidation

Following the acquisition of Promina Group Limited there were two Australian tax-consolidated groups; the Suncorp-Metway Ltd tax-consolidated group and the Promina Group Limited tax-consolidated group. Both groups are comprised of their respective Australian wholly-owned subsidiaries which are set out in note 48.

The Company was the head entity of the Suncorp-Metway Ltd tax-consolidated group while Promina Group Limited was the head entity of the Promina Group Limited tax-consolidated group. Immediately before 1 July 2007, the Suncorp-Metway Ltd tax-consolidated group and the Promina Group Limited tax-consolidated group formed a single tax-consolidated group, with the Company as the head entity.

The Company and Promina Group Limited and each of their own wholly-owned subsidiaries recognise the current and deferred tax amounts applicable to the transactions undertaken by it, as if they continued to be a separately taxable entity in their own right, reasonably adjusted for certain intragroup transactions. The Company and Promina Group Limited recognise their respective tax-consolidated group's current tax liability. Any differences, per subsidiary, between the current tax liability and any tax funding arrangement amounts (see below) are recognised by the Company and Promina Group Limited as an equity contribution to or distribution from the subsidiary.

Both tax-consolidated groups have entered into tax sharing agreements that require their respective wholly-owned subsidiaries to make contributions to the relevant head entity for tax liabilities arising from external transactions occurring after the implementation of tax consolidation. The contributions are calculated as if the individual tax liability of the subsidiary was payable (as if the subsidiary was a separately taxable entity in its own right), reasonably adjusted for certain intragroup transactions. The assets and liabilities arising under the tax sharing agreement are recognised as inter-company assets and liabilities, at call.

Both head entities, together with the other members of each consolidated group, have also, via their respective tax sharing agreements, provided for the determination of income tax liabilities between the entities should the relevant head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this component of the agreement as this outcome is considered remote.

(ah) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or the amount of expense.

Gross written premium and net earned premium are net of the GST component of premium.

Receivables, payables and the provision for outstanding claims are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as an asset or liability in the Balance Sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(ai) Changes in accounting estimates and errors

(i) Changes in accounting estimates

If a change in an accounting estimate gives rise to a change in an asset or liability, or relates to equity, it is recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change. Otherwise, it is recognised prospectively by including it in the Income Statement in the period of the change and future periods, as applicable.

3. Significant accounting policies (continued)

(ai) Changes in accounting estimates and errors (continued)

(ii) Errors

Material prior period errors are corrected retrospectively (to the earliest date practicable) in the next issued financial report by:

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liability and equity for the earliest prior period presented.

For retrospective application comparative information presented for a particular prior period need not be restated if restating the information would require undue cost or effort. When comparative information for a particular prior period is not restated, the opening balance of retained earnings for the next period shall be restated for the cumulative effect of the error before the beginning of that period.

Significant disclosures relating to the nature and amount of the prior period error must be included in the next issued financial report.

(aj) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to ordinary equity holders of the Company adjusted for any costs of servicing equity other than ordinary shares (the numerator), by the weighted average number of ordinary shares outstanding during the period, adjusted for bonus elements in ordinary shares issued during the year (the denominator).

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- In the numerator, the after-tax effect of dividends, interest and other conversion costs associated with dilutive potential ordinary shares; and
- In the denominator, the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

4. Segment reporting

Segment information is presented in respect of the Group's business segments, which is the primary format for segment information. This format is based on the Group's management and internal reporting structure.

Geographical segments are the Group's secondary segments. The group operates in two main geographical areas, Australia being the country of domicile of the parent entity, and New Zealand.

Inter-segment transfers are priced on an arm's length basis and are eliminated on consolidation. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

(a) Business segments

The Group comprises the following business segments:

Segment	Activities
Business Banking	Commercial banking, agribusiness, property and equipment finance.
Retail Banking	Home, personal and small business loans, savings and transaction accounts.
General Insurance – Personal	Home and motor insurance, travel insurance, loan protection, rental bond, personal effects cover and Compulsory Third Party insurance.
General Insurance – Commercial	Commercial motor, marine and aviation insurance, public liability and professional indemnity insurance and workers' compensation services.
Wealth Management	Life insurance and superannuation administration services, funds management, financial planning and funds administration.
Vero New Zealand	Commercial motor and marine insurance, travel insurance, public liability and professional indemnity.
Other	Treasury and property management services.

4. Segment reporting

(a) Business segments (continued)

	Business Banking	Retail Banking	General Insurance Personal	General Insurance Commercial	Wealth Management	Vero New Zealand	Other	Eliminations /unallocated	Consolidated
	$m	$m	$m	$m	$m	$m	$m	$m	$m
2007									
Revenue from outside the Group	1,402	1,940	3,349	2,093	1,456	185	339	(602)	10,162
Inter-segment revenue	129	896	–	–	–	–	1,692	(2,717)	–
Total segment revenue	1,531	2,836	3,349	2,093	1,456	185	2,031	(3,319)	10,162
Segment result	269	232	474	463	208	11	8	(28)	1,637
Unallocated revenue less unallocated expenses									–
Non-banking interest expense									(94)
Profit before tax									1,543
Income tax expense									(479)
Profit for the year									1,064
Segment assets	19,532	26,626	13,090	6,367	13,130	1,920	4,959	(723)	84,901
Unallocated assets									–
Total assets									84,901
Segment liabilities	18,399	25,717	8,313	4,062	10,202	1,131	4,999	(313)	72,510
Unallocated liabilities									–
Total liabilities									72,510
Investments in associates and joint venture entities	–	–	339	46	–	–	–	–	385
Acquisitions of property, plant and equipment and intangible assets	20	68	58	59	8	2	11	6,620	6,846
Share of profits of associates and joint venture entities included in segment result	–	–	57	–	–	–	–	–	57
Depreciation and amortisation expense	7	22	49	86	15	23	4	15	221
Impairment losses	19	9	–	–	–	–	–	–	28
Impairment losses reversed	(1)	(2)	–	–	–	–	–	–	(3)

4. Segment reporting (continued)

(a) Business segments (continued)

	Business Banking	Retail Banking	General Insurance Personal	General Insurance Commercial	Wealth Management	Vero New Zealand	Other	Eliminations /unallocated	Consolidated
	$m	$m	$m	$m	$m	$m	$m	$m	$m
2006									
Revenue from outside the Group	1,279	1,570	2,372	1,184	988	–	281	18	7,692
Inter-segment revenue	66	740	–	–	–	–	1,387	(2,193)	–
Total segment revenue	1,345	2,310	2,372	1,184	988	–	1,668	(2,175)	7,692
Segment result	263	198	209	482	153	–	57	(16)	1,346
Unallocated revenue less unallocated expenses									–
Profit before tax									1,346
Income tax expense									(430)
Profit for the year									916
Segment assets	16,390	23,170	5,536	3,117	6,181	–	4,159	(1,039)	57,514
Unallocated assets									–
Total assets									57,514
Segment liabilities	15,350	22,545	4,101	2,241	5,902	–	4,041	(1,101)	53,079
Unallocated liabilities									–
Total liabilities									53,079
Investments in associates and joint venture entities in segment assets above	–	–	138	–	–	–	–	–	138
Acquisitions of property, plant and equipment and intangible assets / capital expenditure	10	30	46	27	4	–	6	–	123
Share of profits of associates and joint venture entities included in segment result above	–	–	25	–	–	–	–	–	25
Depreciation and amortisation expense	7	20	22	13	3	–	4	–	69
Impairment losses	27	7	–	–	–	–	–	–	34
Impairment losses reversed	(1)	(2)	–	–	–	–	–	–	(3)

(b) Geographical segments

Whilst some business activities take place in New Zealand subsequent to the acquisition of Promina Group Limited, the Group operated predominantly in one geographical segment being Australia over the course of the financial year.

5. Changes in the composition of the Group

(a) Subsidiaries

Acquisitions

(i) Promina Group Limited

On 20 March 2007, Suncorp Insurance Holdings Limited acquired all the shares in Promina Group Limited ("Promina") for $7,908,406,464, satisfied by $1,896,420,563 in cash (including transaction costs) and the issue of 280,279,063 shares in Suncorp-Metway Ltd at a fair value of $21.45 per share, based on the share price at the date of acquisition. The cost of the acquisition includes directly attributable costs including consultancy, legal, accounting and other professional fees.

The principal activities of Promina are underwriting of general and life insurance businesses and the investment and administration of insurance and non-insurance funds.

The acquisition had the following effect on the Group's assets and liabilities:

	Pre-acquisition carrying amount $m	Recognised values on acquisition $m
Assets		
Cash and cash equivalents	240	240
Financial assets at fair value through profit and loss	9,191	9,191
Loans, advances and other receivables	726	726
Reinsurance and other recoveries	768	768
Deferred insurance assets	356	76
Investments in associates and joint ventures	96	206
Property, plant and equipment	70	70
Deferred tax assets	93	166
Investment properties	6	6
Intangible assets		
Goodwill	281	4,005
Brands	–	660
Value of in-force customer contracts	–	652
Customer relationships	–	196
Distribution relationships	–	433
Outstanding claims liability intangible	–	187
Software	9	228
Other assets	145	145
Total assets	11,981	17,955
Liabilities		
Payables and other liabilities	777	777
Current tax liabilities	16	16
Employee benefit obligations	77	77
Deferred tax liabilities	181	556
Unearned premium liabilities	1,709	1,709
Outstanding claims liabilities	2,933	2,933
Life insurance policy liabilities	3,141	3,141
Unvested policyowner benefits	19	19
Financial liabilities	810	810
Total liabilities	9,663	10,038
Net identifiable assets and liabilities	2,318	7,917
Less: amount attributable to minority interests		9
Net identifiable assets and liabilities attributable to Suncorp		7,908
Consideration paid in cash (including transaction costs)		1,896
Cash acquired		(240)
Net cash outflow		1,656

5. Changes in the composition of the Group (continued)

(a) Subsidiaries (continued)

Acquisitions (continued)

The following methods and key assumptions were used in determining the values of assets and liabilities acquired where the fair values differed from the recognised values in Promina's financial statements.

Investments in associates and joint ventures

Investments in the RACI and NTI joint ventures have been valued using a discounted cash flow method.

Brands

Fair value of brands has been determined using the relief from royalty method except for the Promina brand which has been valued on replacement cost basis. In determining the value of brands royalty rates have been determined based on the strengths of each brand and its importance to the customers' purchasing decisions. Royalty rates have been applied to net earned premiums for insurance brands and total revenues for financial services brands. Premium and fee income forecasts are based on management projections for the first three years and then long term growth rates.

Value of in-force customer contracts

The fair value of in-force business has been determined based on expected profit that will emerge from the block of in-force business as it matures and all claims are paid. In the general insurance businesses the in-force value relates to the premiums that have been paid in full for a policy and the contractual exposure period for the policy has not fully elapsed. Unearned premium has been calculated as net unearned premium, less deferred acquisition costs, less fire services levy. Claims cost has been calculated as fair value of unexpected risk including claims handling expenses, less bound business, less reinsurance premiums payable. In the life insurance business, the in-force business is the future premiums and profits from existing policies, calculated as value of business in-force plus adjusted net worth less net tangible assets.

Customer relationships

Future profit on customer relationships has been valued using the income approach, based on the present value of future profits expected to arise from existing customer relationships. Premium/fee income and margin forecasts are based on management projections for the first three years and then a long term growth rate. Useful life and lapse rate assumptions for the existing customer base have been determined based on historical lapse rate information for each business.

Distribution relationships

Distribution relationships have been valued using the income approach representing the present value of future earnings expected to be generated by the existing distribution channels. The expected life of various categories of brokers have been determined based on an analysis of the length of the historical relationships with the various categories of broker, the relative strength of perceived relationships and the level of competition for broker relationships.

Software

Software has been valued using the replacement cost approach.

General insurance outstanding claims liabilities

The fair value of the outstanding claims liabilities has been determined using a market assessed risk margin. However, the value of general insurance claims reserves recognised on acquisition has been determined using a risk margin consistent with Suncorp's policy with an offsetting intangible also recognised, which gives a net balance which is equivalent to the fair value based on market assumptions.

Goodwill

Goodwill arose in the business combination as the consideration paid for the combination effectively included amounts in relation to the skills and talent of the acquired business workforce, the benefit of expected head office and operational synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be measured reliably or they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged either individually or together with any related contracts.

Due to the complexity and timing of this acquisition, the fair values currently established are provisional and are subject to further review during the year ending 30 June 2008.

During the period 21 March – 30 June 2007, Promina contributed net profit of $37 million to the consolidated net profit for the year.

5. Changes in the composition of the Group (continued)

(a) Subsidiaries (continued)

Acquisitions (continued)

If the acquisition had occurred on 1 July 2006, group revenue would have been $11,429 million and net profit would have been $1,462 million. This pro-forma financial information uses Promina data for months corresponding to Suncorp's 30 June year end. The pro-forma amounts represent the historical operating results of Promina, reported in accordance with their pre-acquisition accounting policies. It excludes transaction and integration costs of $77 million and a non-recurring adjustment to align general insurance outstanding claims valuations of $10 million. It includes a full year of amortisation of intangibles as if the acquisition occurred on 1 July 2006. The amortisation of identifiable intangible assets will vary over time.

	2007 (Post acquisition)	2008	2009	2010	2011	Post 2011
$m	141	364	254	218	160	1,262

The pro-forma information does not include all costs related to the integration of Promina into the Suncorp Group, nor does it reflect the potential synergies which we expect to realise. It does not necessarily represent what would have occurred if the transaction had taken place on 1 July 2006 and should not be taken as representative of the Suncorp Group's future consolidated results.

(ii) Terri Scheer Insurance Brokers Pty Ltd

On 30 April 2007 Vero Insurance Limited acquired 100% of the issued shares of Terri Scheer Insurance Brokers Pty Ltd ("TSIB") for cash consideration of $24.2 million. Of this $24.2 million purchase consideration, $5 million is a deferred payment to be made in June 2008. Net assets of TSIB at the date of acquisition were $0.2 million, resulting in goodwill on acquisition of $19 million and $5.8 million goodwill acquired. TSIB is a broker of Landlord Protection insurance policies, which are to be underwritten by Vero Insurance Limited following the acquisition.

(iii) Axiom Risk & Insurance Management Limited

In June 2007 an agreement was made by Vero Insurance New Zealand Limited to purchase the remaining 50% ownership in its associate, Axiom Risk & Insurance Management Limited ("Axiom"). The net assets of Axiom at the date of acquisition were less than $0.1 million. The acquisition price for the purchase of the remaining 50% ownership interest was $0.9 million. The goodwill on acquisition has been immediately impaired to nil carrying value.

(iv) Mariner Underwriting Limited

In June 2007 Vero Insurance New Zealand Limited acquired the remaining 50% ownership in its associate, Mariner Underwriting Limited ("Mariner") for $0.5 million. The goodwill on acquisition has been immediately impaired to nil carrying value.

Entities established

The entities established during the financial year are as follows:

Name of entity	Registration date
Suncorp Property Development Equity Fund #2 Unit Trust	18 October 2006
SPDEF #2 Pty Ltd	18 October 2006
Suncorp Insurance Holdings Limited	6 December 2006
Suncorp Insurance Funding 2007 Limited	1 March 2007
Polaris Data Centre Unit Trust	29 May 2007

No subsidiaries were established during the comparative reporting period.

Suncorp Property Development Equity Fund #2 Unit Trust acquired a 50% interest in a joint venture on 30 November 2006 which is involved in residential land sub-division and development. Polaris Data Centre Unit Trust acquired a 50% interest in a joint venture on 29 May 2007 which is undertaking property development. For further details refer to note 19 Investments in associates and joint ventures.

5. Changes in the composition of the Group (continued)

(a) Subsidiaries (continued)

Disposals

The following subsidiaries were deregistered during the current reporting period:

Name of entity	Date deregistered
LJ Hooker (NZ) Limited	29 June 2007
LJ Hooker Limited (incorporated in New Zealand)	29 June 2007

The following subsidiaries were deregistered during the comparative reporting period:

Name of entity	Date deregistered
PFC Finance Pty Ltd	20 November 2005
Permanent Financial Corporation (Aust) Pty Ltd	20 November 2005
Permanent Holdings Pty Ltd	20 November 2005

(b) Associates and joint venture entities

The Group did not acquire any interest in associates or joint venture entities during the comparative reporting period other than as a consequence of acquiring Promina Group Limited.

The Group did not dispose of any interests in associates or joint venture entities during the current or comparative reporting periods.

6. Income

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Interest:				
controlled entities	**–**	–	**28**	26
other	**3,880**	3,251	**3,196**	2,677
Dividends:				
controlled entities	**–**	–	**557**	545
other	**181**	175	**–**	–
Rental income	**33**	30	**–**	–
General insurance revenue:				
direct premium	**3,673**	2,639	**–**	–
inwards reinsurance premium	**7**	5	**–**	–
reinsurance and other recoveries	**598**	315	**–**	–
reinsurance commission income	**13**	5	**–**	–
Life insurance revenue:				
direct premium	**288**	136	**–**	–
reinsurance recoveries revenue	**52**	20	**–**	–
Changes in fair value of investments backing General Insurance liabilities:				
realised	**16**	12	**–**	–
unrealised	**77**	90	**–**	–
Changes in fair value of investments backing Life Insurance liabilities:				
realised	**459**	124	**–**	–
unrealised	**239**	396	**–**	–
Trust distributions	**146**	79	**–**	–
Net profits on derivative and other financial instruments:				
realised	**11**	7	**7**	8
unrealised	**(16)**	(5)	**4**	4
Fees and commissions:				
controlled entities	**–**	–	**553**	517
other	**274**	254	**207**	191
Managed schemes revenue	**132**	132	**–**	–
Release of unused provisions	**4**	2	**4**	2
Net gain on disposal of property, plant and equipment	**1**	–	**–**	–
Other revenue	**94**	25	**10**	7
	10,162	7,692	**4,566**	3,977
Disclosed in the Income Statements as:				
Banking interest revenue	**3,447**	2,887	**3,224**	2,705
Banking fee and commission revenue	**220**	202	**207**	189
General insurance premium revenue	**3,680**	2,644	**–**	–
Life insurance premium revenue	**288**	136	**–**	–
Reinsurance and other recoveries revenue	**650**	335	**–**	–
General insurance investment revenue	**493**	446	**–**	–
Life insurance investment revenue	**1,060**	805	**–**	–
Other revenue	**324**	237	**1,135**	1,083
	10,162	7,692	**4,566**	3,977
Banking interest expense	**(2,537)**	(2,039)	**(2,107)**	(1,777)
Banking fee and commission expense	**(80)**	(73)	**(83)**	(75)
	7,545	5,580	**2,376**	2,125

7. Expenses

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Interest expense				
Controlled entities	**–**	–	**19**	15
Other persons	**2,631**	2,055	**2,127**	1,786
Total interest expense	**2,631**	2,055	**2,146**	1,801
Operating expenses				
Staff expenses	**1,010**	732	**24**	22
Total staff expenses	**1,010**	732	**24**	22
Equipment and occupancy expenses				
Depreciation:				
Buildings	**1**	1	**–**	1
Plant and equipment	**33**	23	**–**	–
Leasehold improvements	**13**	8	**–**	–
Total depreciation	**47**	32	**–**	1
Loss on disposal of property, plant and equipment	**2**	–	**–**	–
Operating lease rentals	**74**	49	**26**	22
Other	**23**	18	**9**	7
Total equipment and occupancy expenses	**146**	99	**35**	30
Other expenses				
Hardware, software and data line expenses	**61**	44	**23**	21
Advertising and promotion expenses	**131**	73	**27**	26
Office supplies, postage and printing	**76**	64	**27**	27
Amortisation:				
Trade names	**20**	–	**–**	–
Consumer relationships	**86**	–	**–**	–
Outstanding claims liability intangible	**18**	–	**–**	–
Franchise agreements	**1**	1	**–**	–
Software	**49**	36	**–**	–
Acquisition costs – insurance activities	**124**	159	**–**	–
Intra-group expenses	**–**	–	**1,183**	963
Financial expenses	**150**	113	**37**	42
Other	**108**	110	**16**	13
Total other expenses	**824**	600	**1,313**	1,092
Total operating expenses	**1,980**	1,431	**1,372**	1,144

8. Auditors' remuneration

	CONSOLIDATED		COMPANY	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Audit services				
Auditors of the Company				
KPMG Australia				
Audit and review of financial reports	**5,816**	3,808	**1,829**	1,608
Other regulatory audit services	**1,514**	1,048	**172**	98
	7,330	4,856	**2,001**	1,706
Overseas KPMG firms				
Audit and review of financial reports	**1,164**	–	**–**	–
Other auditors				
Audit and review of financial reports	**330**	122	**72**	122
Other regulatory audit services	**10**	–	**–**	–
	8,834	4,978	**2,073**	1,828
Other services				
Auditors of the Company				
KPMG Australia				
Taxation services	**242**	126	**178**	126
Assurance services	**2,223**	616	**1,740**	357
Due diligence services	**382**	–	**382**	–
	2,847	742	**2,300**	483
Other auditors				
Assurance services	**163**	95	**96**	61
Taxation services	**238**	–	**–**	–
	3,248	837	**2,396**	544

9. Impairment losses on loans and advances

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Banking activities				
Impairment losses on loans and advances				
Increase in collective provision for impairment (note 16)	**(8)**	5	**(8)**	4
Increase in specific provision for impairment (note 16)	**18**	17	**12**	17
Bad debts written off	**18**	12	**13**	6
Bad debts recovered	**(3)**	(3)	**(3)**	(3)
	25	31	**14**	24

10. Income tax

(a) Income tax expense

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Recognised in the Income Statement				
Current tax expense				
Current year	**460**	390	**126**	112
Adjustments for prior years	**19**	–	**–**	(2)
	479	390	**126**	110
Deferred tax expense				
Origination and reversal of temporary differences	**–**	40	**(8)**	6
Total income tax expense in Income Statement	**479**	430	**118**	116
Attributable to continuing operations	**479**	430	**118**	116
Numerical reconciliation between income tax expense and pre-tax net profit				
Profit before tax	**1,543**	1,346	**952**	933
Income tax using the domestic corporation tax rate of 30% (2006: 30%)	**463**	404	**286**	280
Increase in income tax expense due to:				
Non-deductible expenses	**1**	6	**4**	5
Imputation gross up on dividends received	**9**	5	**–**	–
Statutory funds	**55**	36	**–**	–
Other	**–**	5	**–**	–
Decrease in income tax expense due to:				
Income tax offsets and credits	**(25)**	(19)	**–**	–
Tax exempt revenues	**–**	(1)	**–**	–
Intercompany dividend	**–**	–	**(167)**	(163)
Other	**(19)**	–	**–**	–
	484	436	**123**	122
Under (over) provision in prior years	**(5)**	(6)	**(5)**	(6)
Income tax expense on pre-tax net profit	**479**	430	**118**	116

Income tax of the financial services business

Australia

Income tax expense includes an amount of $98 million (2006: $72 million) attributable to the life insurance companies' statutory funds.

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

10. Income tax (continued)

(a) Income tax expense (continued)

	APPLICABLE TAX RATE	
	2007 %	2006 %
Class of business		
Complying superannuation business [1]	**15**	15
Ordinary class of business	**30**	30
Shareholder funds	**30**	30
Annuity and pension business [2]	**0**	0

Notes
1 Includes Virtual Pooled Superannuation Trust (VPST)
2 Segregated Exempt Assets (SEA)

New Zealand

For New Zealand the income tax expense is determined on a profit basis using the liability method as required by SSAP 12. In New Zealand, corporate tax rate of 33% (2006: 33%) applies for all classes of businesses.

The Government in New Zealand is currently engaged in major reforms of the investment savings and life insurance markets. A number of reforms have recently been enacted and others are proposed which are set to alter the tax treatment of policyholder investment returns and the life company taxation base.

Officials from Inland Revenue and life industry representatives are currently working collaboratively on the design of a new tax regime for life insurance, in addition to the above changes for investment-linked life insurance business. Legislation to reflect this new regime is currently expected to be introduced during 2008.

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Deferred tax recognised directly in equity				
Relating to equity settled transactions	**–**	1	**–**	–
Relating to cash flow hedges	**9**	11	**11**	13
	9	12	**11**	13

(b) Current tax liabilities

The current tax liability for the Group of $121 million (2006: $135 million) refers to the total current tax liabilities for both the Suncorp-Metway Ltd and Promina Group Limited tax-consolidated groups. It represents the total amount of income taxes payable in respect of current and prior financial periods for both groups.

The current tax liability for the Company of $116 million (2006: $135 million) refers to the total current tax liabilities in respect of current and prior financial periods for the Suncorp-Metway Ltd tax-consolidated group only.

In accordance with the tax consolidation legislation, the head entity of each Australian tax-consolidated group assumes the current tax liability initially recognised by the respective members of the tax-consolidated group.

10. Income tax (continued)

(c) Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
	2007 $m	2006 $m	**2007 $m**	2006 $m	**2007 $m**	2006 $m
Consolidated						
Property, plant and equipment	**19**	23	**(1)**	(4)	**18**	19
Intangible assets	**–**	–	**(434)**	(2)	**(434)**	(2)
Other investments	**7**	–	**(292)**	(205)	**(285)**	(205)
Employee benefits	**39**	23	**(5)**	–	**34**	23
Provisions	**119**	115	**–**	(3)	**119**	112
Other items	**211**	45	**(132)**	(59)	**79**	(14)
Tax assets / (liabilities)	**395**	206	**(864)**	(273)	**(469)**	(67)
Set off of tax	**(395)**	(206)	**395**	206	**–**	–
Net tax assets / (liabilities)	**–**	–	**(469)**	(67)	**(469)**	(67)

	ASSETS		LIABILITIES	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Movements				
Opening balance at 1 July 2006	**206**	167	**(273)**	(183)
Credited / (charged) to the Income Statement	**23**	39	**(25)**	(78)
Credited / (charged) to equity	**–**	–	**(9)**	(12)
Acquisition of subsidiaries	**166**	–	**(557)**	–
Closing balance at 30 June 2007	**395**	206	**(864)**	(273)

10. Income tax (continued)

(c) Deferred tax assets and liabilities (continued)

	ASSETS		LIABILITIES		NET	
	2007 $m	2006 $m	**2007 $m**	2006 $m	**2007 $m**	2006 $m
Company						
Property, plant and equipment	**2**	3	**–**	–	**2**	3
Other investments	**–**	–	**(35)**	(38)	**(35)**	(38)
Provisions	**39**	40	**–**	–	**39**	40
Other items	**32**	25	**(40)**	(31)	**(8)**	(6)
Tax assets / (liabilities)	**73**	68	**(75)**	(69)	**(2)**	(1)
Set off of tax	**(73)**	(68)	**73**	68	**–**	–
Net tax assets / (liabilities)	**–**	–	**(2)**	(1)	**(2)**	(1)

	ASSETS		LIABILITIES	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Movements				
Opening balance at 1 July 2006	**68**	67	**(69)**	(49)
Credited / (charged) to the Income Statement	**5**	1	**5**	(7)
Credited / (charged) to equity	**–**	–	**(10)**	(13)
Closing balance at 30 June 2007	**73**	68	**(74)**	(69)

There are no unrecognised deferred tax assets and liabilities.

(d) Tax-consolidation

Suncorp-Metway Ltd elected to form a tax-consolidated group from 1 July 2002. On 20 March 2007 the consolidated entity acquired 100% of Promina Group Limited which had previously formed a tax-consolidated group on 1 July 2002.

Following the acquisition of Promina Group Limited and up to 30 June 2007, the Group comprised two Australian tax-consolidated groups. Immediately before 1 July 2007, the Suncorp-Metway Ltd tax-consolidated group and the Promina Group Limited tax-consolidated group formed a single tax-consolidated group.

The accounting policy in relation to tax consolidation legislation and its application to Suncorp-Metway Ltd is set out in note 3(ag).

Until there was a single tax-consolidated group, separate tax sharing agreements applied to each relevant tax-consolidated group. It is the opinion of the directors that the respective tax sharing agreements entered into by the relevant entities limit the joint and severable liability of the wholly-owned subsidiaries in the case of default by the relevant head company.

Each tax sharing agreement requires the wholly-owned entities in each tax-consolidated group to fully compensate their respective head company for any current tax payable assumed. Accordingly the current tax payable reported by the consolidated Group is subject to the obligations defined by the two tax sharing agreements.

From 1 July 2007, all wholly-owned entities of Suncorp-Metway Ltd entered into a single tax sharing agreement which is consistent with the current Suncorp-Metway Ltd tax sharing agreement.

The impact on the deferred tax balances of the Group as a result of the Promina Group Limited tax-consolidated group joining the Suncorp-Metway Ltd tax-consolidated group immediately prior to 1 July 2007 has been recognised in the fair value of Promina Group Limited assets and liabilities acquired.

11. Earnings per share

Earnings per share is calculated as described in note 3(aj) and is set out below:

	CONSOLIDATED	
	2007	2006
Profit attributable to ordinary equity holders of the Company – $m	**1,064**	916
Weighted average number of ordinary shares for basic earnings per share calculation	**670,878,920**	567,974,777
Basic earnings per share – cents	**158.60**	161.27
Weighted average number of ordinary shares for diluted earnings per share calculation	**670,878,920**	568,145,713
Diluted earnings per share – cents	**158.60**	161.23

The 1,440,628 (2006: 2,500,000) preference shares recognised in liabilities are not considered to be either ordinary or potential ordinary shares. They are anti-dilutive in nature as the dividends are payable at 5.068% per annum which exceeds basic earnings per share. Therefore, preference shares have not been included in either basic or diluted earnings per share.

Weighted average number of ordinary shares

	Number of shares	
	2007	2006
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**670,878,920**	567,974,777
Weighted average number of potential ordinary shares relating to:		
options exercised on ordinary shares	**–**	171,038
partly paid ordinary shares	**–**	(102)
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**670,878,920**	568,145,713

12. Cash and cash equivalents

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Cash and balances with the central bank	**426**	212	**107**	138
Other money market placements	**667**	326	**271**	79
	1,093	538	**378**	217
The above figures are reconciled to cash at the end of the financial year as shown in the Statements of Cash Flows as follows:				
Balances as above	**1,093**	538	**378**	217
Add: Receivables due from other banks	**42**	26	**42**	26
Less: Payables due to other banks	**(25)**	(120)	**(25)**	(120)
	1,110	444	**395**	123

13. Trading securities

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Banking activities				
Interest bearing securities at fair value				
Bank bills, certificates of deposits and other short term negotiable securities	**4,291**	3,773	**4,291**	3,773
Total trading securities	**4,291**	3,773	**4,291**	3,773

The above trading securities are all financial assets classified as fair value through the profit or loss.

14. Investment securities

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Banking activities				
Investments				
Shares in subsidiaries at cost	**–**	–	**9,687**	2,095
Shares held in trust	**8**	3	**1**	–
	8	3	**9,688**	2,095
General Insurance activities				
Quoted investments at fair value				
Debentures and corporate bonds	**4,413**	2,614	**–**	–
Government and semi-government securities	**2,693**	1,732	**–**	–
Discounted securities	**1,162**	140	**–**	–
Equity securities	**1,410**	808	**–**	–
Property trusts	**36**	–	**–**	–
Unit trusts	**47**	8	**–**	–
Other	**359**	–	**–**	–
	10,120	5,302	**–**	–
Unquoted investments at fair value				
Property trust	**6**	5	**–**	–
	6	5	**–**	–
	10,126	5,307	**–**	–
Wealth Management activities				
Investments at fair value				
Debentures and corporate bonds	**2,099**	1,533	**–**	–
Government and semi-government securities	**592**	47	**–**	–
Discounted securities	**213**	–	**–**	–
Equity securities	**3,390**	2,516	**–**	–
Property trusts	**728**	475	**–**	–
Unit trusts	**3,455**	1,112	**–**	–
Other	**287**	–	**–**	–
Investments available-for-sale	**10,764**	5,683	**–**	–
Unlisted unit trusts and unlisted managed investment schemes at fair value	**22**	18	**–**	–
	10,786	5,701	**–**	–
Total investment securities	**20,920**	11,011	**9,688**	2,095

The General Insurance and Life Insurance investment securities are all financial assets classified as fair value through the profit and loss, and any changes in fair value are immediately recognised in the Income Statement. The Funds Management investment securities are classified as either available-for-sale or at fair value through the profit and loss with any changes in fair value recognised directly in equity or in the Income Statement respectively.

15. Loans, advances and other receivables

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Banking activities				
Housing loans [1]	**23,795**	20,812	**23,791**	20,807
Consumer loans	**1,063**	822	**1,063**	822
Business loans	**19,914**	16,835	**17,625**	14,884
Structured finance	**6**	6	**6**	6
Other lending	**189**	16	**191**	17
	44,967	38,491	**42,676**	36,536
Provision for impairment (note 16)	**(120)**	(124)	**(108)**	(115)
	44,847	38,367	**42,568**	36,421
General Insurance activities				
Premiums outstanding	**1,346**	624	**–**	–
Investment revenue receivable	**96**	55	**–**	–
Insurance managed funds receivable	**35**	44	**–**	–
Insurance recoveries and other receivables	**100**	10	**–**	–
	1,577	733	**–**	–
Life Insurance activities				
Premiums outstanding	**16**	6	**–**	–
Investment revenue receivable	**268**	71	**–**	–
Reinsurance recoveries receivable	**42**	–	**–**	–
Other	**263**	43	**–**	–
	589	120	**–**	–
Total loans, advances and other receivables	**47,013**	39,220	**42,568**	36,421

Notes

1 Includes securitised home loan balances of $7.8 billion (2006: $5.4 billion) which has an associated securitised liability of $7.9 billion (2006: $5.7 billion).

16. Provision for impairment

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Banking activities				
General provision				
Balance at the beginning of the financial year	**–**	138	**–**	130
Effect of change in accounting policy	**–**	(138)	**–**	(130)
Balance at the end of the financial year	**–**	–	**–**	–
Collective provision				
Balance at the beginning of the financial year	**103**	–	**96**	–
Effect of change in accounting policy	**–**	98	**–**	92
Balance at the beginning of the financial year – restated	**103**	98	**96**	92
Charge against Income Statement (note 9)	**(8)**	5	**(8)**	4
Balance at the end of the financial year	**95**	103	**88**	96
Specific provision				
Balance at the beginning of the financial year	**21**	17	**19**	16
Effect of change in accounting policy	**–**	4	**–**	–
Balance at the beginning of the financial year – restated	**21**	21	**19**	16
Charge against Income Statement (note 9)	**18**	17	**12**	17
Bad debts written-off	**(14)**	(17)	**(11)**	(14)
Balance at the end of the financial year	**25**	21	**20**	19
Total provision for impairment – Banking activities	**120**	124	**108**	115
The following classes of loans are included in the total provision for impairment – Banking activities:				
Restructured loans				
Carrying amount	**–**	5	**–**	5
Specific provision	**–**	–	**–**	–
Real estate assets acquired through the enforcement of security	**–**	–	**–**	–
Other assets acquired through the enforcement of security	**–**	–	**–**	–

17. Reinsurance and other recoveries

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
General Insurance				
Reinsurance recoveries on outstanding claim liabilities				
Expected undiscounted outstanding reinsurance and other recoveries	**1,319**	569	**–**	–
Discount to present value	**(170)**	(82)	**–**	–
Total outstanding reinsurance and other recoveries	**1,149**	487	**–**	–
Life Insurance				
Gross policy liabilities ceded under reinsurance	**255**	61	**–**	–
Total outstanding reinsurance and other recoveries	**255**	61	**–**	–
Current	**447**	112	**–**	–
Non-current	**957**	436	**–**	–
Total outstanding reinsurance and other recoveries	**1,404**	548	**–**	–

18. Deferred insurance assets

	CONSOLIDATED 2007 $m	2006 $m	COMPANY 2007 $m	2006 $m
Deferred acquisition costs				
Deferred acquisition costs at beginning of the financial year	**213**	213	**–**	–
Effect of change in accounting policy	**2**	11	**–**	–
Acquisition costs deferred	**422**	346	**–**	–
Amortisation charged to Income Statement	**(247)**	(334)	**–**	–
Write off for liability adequacy test deficiency	**(40)**	(23)	**–**	–
Deferred acquisition costs at end of the financial year	**350**	213	**–**	–
Deferred reinsurance assets				
Deferred reinsurance assets at beginning of financial year	**10**	12	**–**	–
Reinsurance premiums paid during the year	**218**	115	**–**	–
Reinsurance premiums charged to expenses	**(208)**	(117)	**–**	–
Acquisition of subsidiaries	**76**	–	**–**	–
Deferred reinsurance assets at end of financial year	**96**	10	**–**	–
Current	**432**	212	**–**	–
Non-current	**14**	11	**–**	–
Total deferred insurance assets	**446**	223	**–**	–

19. Investments in associates and joint ventures

The financial report of the Group includes the financial position, the results from operations and cash flows of the following associates and joint ventures in accordance with the accounting policy described in note 3(a). Information relating to the associates and joint ventures is set out below.

NAME OF ENTITY	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST 2007 %	OWNERSHIP INTEREST 2006 %	CONSOLIDATED CARRYING AMOUNT 2007 $m	CONSOLIDATED CARRYING AMOUNT 2006 $m
Associates					
NTI Ltd [4]	Management Services	**50**	–	**47**	–
RAC Insurance Pty Ltd [4]	Insurance	**50**	–	**160**	–
AA Warranty Ltd [5]	Non-trading	**50**	–	**–**	–
AA Life Services Ltd [5]	Marketing of financial services products	**50**	–	**–**	–
				207	–
Joint venture entities					
RACQ Insurance Ltd [1 2 4]	Insurance	**50**	50	**129**	106
RAA – GIO Insurance Holdings Ltd [1 4]	Insurance	**50**	50	**16**	14
Australand Land and Housing No 5 (Hope Island) Pty Ltd [3 4]	Property investment	**50**	50	**11**	6
Australand Land and Housing No 7 (Hope Island) Pty Ltd [3 4]	Property investment	**50**	50	**11**	6
Australand Land and Housing No 8 (Hope Island) Pty Ltd [3 4]	Property investment	**50**	50	**11**	6
				178	138
				385	138

		2007 %	2006 %
Joint venture operations			
National Transport Insurance	Faciliation of insurance arrangements	**50**	–

	2007 $m	2006 $m
Assets employed in joint ventures included in the consolidated balance sheet are as follows:		
Cash and cash equivalents	**6**	–
Reinsurance and other recoveries	**4**	–
Deferred insurance assets	**7**	–
Other assets	**39**	–
Total	**56**	–

		2007 %	2006 %
Joint venture assets			
Polaris data centre project	Property development	**50**	–
Spring Farm development	Property development	**50**	–

	2007 $m	2006 $m
Share of assets employed in joint ventures included in the consolidated balance sheet are as follows:		
Other assets – development properties	**44**	–
Total	**44**	–
Share of joint ventures' commitments	**16**	–

Notes
1 Investments held by GIO Insurance Investment Holdings A Pty Ltd.
2 RACQ Insurance Ltd has a 31 December balance date.
3 Investments held by Suncorp Property Development Equity Fund.
4 Incorporated in Australia.
5 Incorporated in New Zealand.

19. Investments in associates and joint ventures (continued)

(a) Investments in associates

	CONSOLIDATED 2007 $m	2006 $m
Movements in carrying amounts of associates		
Opening balance	**–**	–
Acquisition of subsidiaries	**206**	–
Share of profits from ordinary activities after income tax	**2**	–
Amortisation of intangible assets acquired	**(1)**	–
Closing balance	**207**	–
Results of associates		
Share of associates' profit before income tax	**4**	–
Share of income tax expense	**(2)**	–
Share of associates' net profit – as disclosed by associates	**2**	–
Dividends received/receivable	**–**	–
Disposal of associates	**–**	(83)
Share of associates' lease commitments	**7**	–
Summary financial information of associates		
Revenues (100%)	**65**	–
Profit / (loss) (100%)	**6**	–
Share of associates' net profit / (loss) recognised	**2**	–
Total assets (100%)	**398**	–
Total liabilities (100%)	**(200)**	–
Net assets as reported by associates (100%)	**198**	–
Share of associates' net assets equity accounted	**207**	–

There are no other material commitments or contingent liabilities of the associates.

(b) Investments in joint ventures

	CONSOLIDATED 2007 $m	2006 $m
Movements in carrying amounts of joint ventures		
Opening balance	**138**	130
Share of profits after income tax	**55**	25
Dividends received/receivable	**(30)**	(19)
Increased investments in joint ventures	**15**	2
Closing balance	**178**	138
Results of joint ventures		
Share of joint ventures' profit before income tax	**78**	35
Share of income tax expense	**(23)**	(10)
Share of joint ventures' net profit – as disclosed by joint ventures	**55**	25
Dividends received/receivable	**(30)**	(19)
Share of joint ventures' lease commitments	**1**	–
Summary financial information of joint ventures		
Revenues (100%)	**613**	598
Expenses (100%)	**502**	548
Profit / (loss) (100%)	**110**	50
Share of joint ventures' net profit / (loss) recognised	**55**	25
Current assets (100%)	**463**	412
Non-current assets (100%)	**679**	650
Current liabilities (100%)	**(464)**	(475)
Non-current liabilities (100%)	**(382)**	(402)
Net assets as reported by joint ventures (100%)	**296**	185
Share of joint ventures' net assets equity accounted	**178**	138

There are no other material commitments or contingent liabilities of the joint ventures.

20. Property, plant and equipment

2007	Land $m	Buildings $m	Leasehold improvements $m	Plant & equipment $m	Capital works in progress $m	Total $m
Consolidated						
Cost						
Balance at the beginning of the financial year	4	43	91	257	35	430
Acquisition of subsidiaries	–	–	50	164	–	214
Additions	–	–	50	66	55	171
Disposals	–	–	(10)	(48)	–	(58)
Transfers between categories	–	–	62	17	(79)	–
Exchange difference	–	–	–	2	–	2
Balance at the end of the financial year	4	43	243	458	11	759
Depreciation						
Balance at the beginning of the financial year	–	15	85	199	–	299
Acquisition of subsidiaries	–	–	33	111	–	144
Depreciation charge for the year	–	1	13	33	–	47
Disposals	–	–	(9)	(43)	–	(52)
Exchange difference	–	–	–	1	–	1
Balance at the end of the financial year	–	16	122	301	–	439
Carrying amounts						
Carrying amount at the beginning of the financial year	4	28	6	58	35	131
Carrying amount at the end of the financial year	4	27	121	157	11	320
Company						
Cost						
Balance at the beginning of the financial year	4	42	7	23	–	76
Disposals	–	–	–	(8)	–	(8)
Balance at the end of the financial year	4	42	7	15	–	68
Depreciation						
Balance at the beginning of the financial year	–	15	7	22	–	44
Depreciation charge for the year	–	1	–	–	–	1
Disposals	–	–	–	(8)	–	(8)
Balance at the end of the financial year	–	16	7	14	–	37
Carrying amounts						
Carrying amount at the beginning of the financial year	4	27	–	1	–	32
Carrying amount at the end of the financial year	4	26	–	1	–	31

20. Property, plant and equipment (continued)

2006	Land $m	Buildings $m	Leasehold improvements $m	Plant & equipments $m	Capital works in progress $m	Total $m
Consolidated						
Cost						
Balance at the beginning of the financial year	4	42	83	249	16	394
Additions	–	1	10	18	31	60
Disposals	–	–	(2)	(22)	–	(24)
Transfers between categories	–	–	–	12	(12)	–
Balance at the end of the financial year	4	43	91	257	35	430
Depreciation						
Balance at the beginning of the financial year	–	14	79	196	–	289
Depreciation charge for the year	–	1	8	23	–	32
Disposals	–	–	(2)	(20)	–	(22)
Balance at the end of the financial year	–	15	85	199	–	299
Carrying amounts						
Carrying amount at the beginning of the financial year	4	28	4	53	16	105
Carrying amount at the end of the financial year	4	28	6	58	35	131
Company						
Cost						
Balance at the beginning of the financial year	4	42	7	25	–	78
Disposals	–	–	–	(2)	–	(2)
Balance at the end of the financial year	4	42	7	23	–	76
Depreciation						
Balance at the beginning of the financial year	–	14	7	24	–	45
Depreciation charge for the year	–	1	–	–	–	1
Disposals	–	–	–	(2)	–	(2)
Balance at the end of the financial year	–	15	7	22	–	44
Carrying amounts						
Carrying amount at the beginning of the financial year	4	28	–	1	–	33
Carrying amount at the end of the financial year	4	27	–	1	–	32

21. Investment property

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
General Insurance activities				
Unquoted investments at fair value				
Freehold land and buildings	**221**	196	**–**	–
Total investment property	**221**	196	**–**	–
Reconciliations of the carrying amounts of investment property at the beginning and end of the financial year are set out below:				
Balance at the beginning of the financial year	**196**	156	**–**	–
Acquisition of subsidiaries	**6**	–	**–**	–
Additions / capitalised expenditure	**1**	6	**–**	–
Fair value adjustments	**18**	34	**–**	–
Balance at the end of the financial year	**221**	196	**–**	–

During the financial year ended 30 June 2007, $33 million (2006: $30 million) was recognised as rental income in the Income Statement and $19 million (2006: $18 million) in respect of direct operating expenses were recognised as expenses in the Income Statement relating to 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.

The basis of valuation of the investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases and rental income. The 2007 valuations were based on independent assessments made by a member of the Australian Property Institute.

A General Insurance entity entered into lease securitisation and defeasance transactions in May 1993 under which the entity has agreed not to sell or create a charge over investment properties with a fair value of $108 million (2006: $95 million) without the consent of the other parties to the transaction.

Certain investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on the leases are as follows:

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Less than one year	**9**	8	**–**	–
Between one and five years	**34**	34	**–**	–
More than five years	**48**	56	**–**	–
	91	98	**–**	–

22. Goodwill and intangible assets

2007	Goodwill $m	Brands $m	Customer contracts and other relationships $m	Outstanding claims liability intangible $m	Franchise systems $m	Software $m	Total $m
Consolidated							
Cost							
Balance at the beginning of the financial year	**1,283**	**–**	**–**	**–**	**15**	**187**	**1,485**
Acquisitions through business combinations	**4,029**	**660**	**1,281**	**187**	**–**	**255**	**6,412**
Other acquisitions	**–**	**–**	**–**	**–**	**1**	**48**	**49**
Exchange gains or losses	**6**	**–**	**–**	**–**	**–**	**–**	**6**
Disposals	**–**	**–**	**–**	**–**	**–**	**(14)**	**(14)**
Balance at the end of the financial year	**5,318**	**660**	**1,281**	**187**	**16**	**476**	**7,938**
Amortisation and impairment losses							
Balance at the beginning of the financial year	**230**	**–**	**–**	**–**	**5**	**126**	**361**
Acquisitions through business combinations	**–**	**–**	**–**	**–**	**–**	**27**	**27**
Amortisation for the year	**–**	**20**	**84**	**18**	**1**	**49**	**172**
Disposals	**–**	**–**	**–**	**–**	**–**	**(13)**	**(13)**
Balance at the end of the financial year	**230**	**20**	**84**	**18**	**6**	**189**	**547**
Carrying amounts							
Carrying amount at the beginning of the financial year	**1,053**	**–**	**–**	**–**	**10**	**61**	**1,124**
Carrying amount at the end of the financial year	**5,088**	**640**	**1,197**	**169**	**10**	**287**	**7,391**
Company							
Cost							
Balance at the beginning of the financial year	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Balance at the end of the financial year	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Amortisation and impairment losses							
Balance at the beginning of the financial year	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Balance at the end of the financial year	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Carrying amounts							
Carrying amount at the beginning of the financial year	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Carrying amount at the end of the financial year	**–**	**–**	**–**	**–**	**–**	**–**	**–**

22. Goodwill and intangible assets (continued)

2006	Goodwill $m	Brands $m	Customer contracts and other relationships $m	Outstanding claims liability intangible $m	Franchise systems $m	Software $m	Total $m
Consolidated							
Cost							
Balance at the beginning of the financial year	1,262	–	–	–	15	153	1,430
Acquisitions through business combinations	21	–	–	–	–	–	21
Other acquisitions	–	–	–	–	–	42	42
Disposals	–	–	–	–	–	(8)	(8)
Balance at the end of the financial year	1,283	–	–	–	15	187	1,485
Amortisation and impairment losses							
Balance at the beginning of the financial year	227	–	–	–	4	98	329
Effect of change in accounting policy	3	–	–	–	–	–	3
Balance at the beginning of the financial year – restated	230	–	–	–	4	98	332
Amortisation for the year	–	–	–	–	1	36	37
Disposals	–	–	–	–	–	(8)	(8)
Balance at the end of the financial year	230	–	–	–	5	126	361
Carrying amounts							
Carrying amount at the beginning of the financial year	1,035	–	–	–	11	55	1,101
Carrying amount at the beginning of the financial year – restated	1,032	–	–	–	11	55	1,098
Carrying amount at the end of the financial year	1,053	–	–	–	10	61	1,124
Company							
Cost							
Balance at the beginning of the financial year	–	–	–	–	–	6	6
Effect of change in accounting policy	–	–	–	–	–	–	–
Balance at the beginning of the financial year – restated	–	–	–	–	–	6	6
Balance at the end of the financial year	–	–	–	–	–	6	6
Amortisation and impairment losses							
Balance at the beginning of the financial year	–	–	–	–	–	6	6
Effect of change in accounting policy	–	–	–	–	–	–	–
Balance at the beginning of the financial year – restated	–	–	–	–	–	6	6
Balance at the end of the financial year	–	–	–	–	–	**6**	**6**
Carrying amounts							
Carrying amount at the beginning of the financial year	–	–	–	–	–	–	–
Carrying amount at the beginning of the financial year – restated	–	–	–	–	–	–	–
Carrying amount at the end of the financial year	–	–	–	–	–	–	–

An independent valuation of the franchise systems was carried out at 30 June 2007 on the basis of current fair market value and provided a valuation range of $87 million to $93 million. As franchise systems are recorded at cost, the valuation has not been brought to account (refer note 3(l)).

22. Goodwill and intangible assets (continued)

(a) Amortisation and impairment charge

All intangible assets other than goodwill have been assessed as having finite lives in the ranges as follows:

Category	Useful life
Franchise systems	20 years
Development software	3–5 years
Brands	9–50 years
Customer contracts	1–20 years
Customer relationships	4–30 years
Distribution relationships	5–15 years
Outstanding claims liability intangible	20 years

(b) Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
General Insurance – Commercial unit	**1,216**	334	**–**	–
General Insurance – Personal unit	**2,255**	710	**–**	–
Wealth Management unit	**1,113**	–	**–**	–
Vero NZ unit	**489**	–	**–**	–
Other units	**15**	9	**–**	–
	5,088	1,053	**–**	–

The Group's goodwill is an intangible asset with an indefinite life, and therefore the carrying amount of the cash generating unit ("CGU") to which goodwill is allocated must be tested for impairment annually. The significant CGUs to which goodwill has been allocated is set out above.

The impairment test for goodwill is performed by comparing the CGU's carrying amount with its recoverable amount, being the CGU's fair value less costs to sell. A reasonable estimate of the fair value less costs to sell for the Group at any point in time is its corresponding market capitalisation as quoted on the Australian Stock Exchange ("ASX"). However, as the CGUs to which goodwill is allocated are not ASX listed entities, the fair value less costs to sell of each CGU is estimated by multiplying each CGU's profit after tax by an average price earnings multiple for the CGU's industry peer group. The average price earnings multiple for each CGU is determined after considering historical and forecast profit and the market capitalisation of relevant ASX listed industry competitors, and the similarity of the CGU's business to that of its industry competitors.

At 30 June 2007, the recoverable amount of each CGU exceeds its carrying amount and, as a result, no impairment loss has been recognised in the consolidated Income Statement. Based on information available and market conditions at 30 June 2007, it is unlikely for the assumptions made in this assessment to change by an amount that could cause any CGU's recoverable amount to be less than its carrying amount.

23. Other assets

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Deferred expenditure – lease brokerage	**26**	25	**–**	1
Unrealised gains on derivative hedging positions	**–**	40	**–**	40
Accrued income	**95**	85	**99**	81
Prepayments	**63**	17	**16**	15
Sundry assets	**220**	100	**96**	78
Surplus on defined benefit funds	**41**	3	**–**	–
Development properties	**44**	–	**–**	–
Total other assets	**489**	270	**211**	215

24. Deposits and short term borrowings

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Unsecured				
Call deposits	**10,590**	9,704	**10,590**	9,704
Term deposits	**8,360**	6,877	**8,360**	6,877
Short term securities issued	**8,888**	7,721	**8,888**	7,721
Offshore borrowings	**134**	54	**134**	54
Offshore borrowings designated as fair value through profit or loss	**2,659**	2,273	**2,659**	2,273
Long term securities issued maturing within 12 months	**285**	1,054	**285**	1,054
Total deposits and short term borrowings	**30,916**	27,683	**30,916**	27,683

As described in note 3(o)(i), the Group has elected to fair value its short term offshore borrowing program through the Income Statement. The change in fair value due to credit risk has been arrived at by calculating the movement in the fair value of the portfolio less the change in fair value attributable to market risk.

The fair value of forward foreign exchange contracts used as economic hedges of monetary liabilities in foreign currencies where hedge accounting is not applied was negative $68 million (2006: $15 million).

25. Payables and other liabilities

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Unpresented bank cheques	**70**	60	**70**	60
Accrued interest payable	**304**	221	**184**	152
Amounts due to reinsurers	**67**	–	**–**	–
Trade creditors and accrued expenses	**996**	367	**412**	156
Unrealised losses on derivative positions	**637**	5	**480**	35
Investment settlements	**1,117**	125	**–**	–
Total payables and other liabilities	**3,191**	778	**1,146**	403
Current	**3,189**	778	**1,146**	403
Non-current	**2**	–	**–**	–
Total payables and other liabilities	**3,191**	778	**1,146**	403

Unrealised losses on derivative hedging positions relate to cross currency swaps for offshore borrowings. Movements in the hedging positions are fully offset by movements in underlying offshore borrowings.

26. Employee benefit obligations

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Employee benefits and related on-costs liabilities				
Deficit of plan assets over defined benefit obligations	**11**	–	**–**	–
Annual leave and long service leave	**225**	139	**–**	–
Total employee benefits and related on-costs liabilities	**236**	139	**–**	–
Provision for employee benefits – current	**188**	111	**–**	–
Provision for employee benefits – non-current	**48**	28	**–**	–
Total employee benefits and related on-costs liabilities	**236**	139	**–**	–

As explained in note 3(p), the amounts for long service leave are measured at their present values. The following assumptions were adopted in measuring present values:

	CONSOLIDATED	
	2007	2006
Weighted average rate of increases in annual employee benefits to settlement	**4.0% – 4.5%**	4.0%
Weighted average discount rate	**6.45% – 7.00%**	5.78%
Weighted average term to settlement of liabilities	**4 – 6 years**	4 years

(a) Defined benefit funds

Each superannuation fund administered on behalf of the employees of the consolidated entity provides benefits to members on retirement, death or disability. All new employees are currently being given membership of defined contribution funds rather than defined benefit funds.

Certain subsidiaries sponsor seven defined benefits superannuation plans for employees, six of which were acquired as a part of the Promina Group acquisition in March 2007. In total, three funds are established for Australian employees, and four funds for New Zealand employees.

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 (PUC) method to determine the present value of the defined benefit obligations, the related current service cost and any past service cost. As at balance date, the three Australian and two of the four New Zealand defined benefit funds were in surplus, while the other two New Zealand funds were in deficit. The Group has no obligation to settle any liabilities with an immediate contribution or additional one off contributions. The Group intends to continue to contribute to the defined benefit plans at rates of 0% – 20.6% of salaries in line with the Actuaries' latest recommendations.

For the Guardian Assurance Superannuation Plan and Commercial Union Plan, the amount of the surplus recognised is restricted to an amount lower than the fair value of the plan assets less the present value of the defined benefit obligation, in accordance with the accounting standards.

26. Employee benefit obligations (continued)

(a) Defined benefit funds (continued)

	Surplus 2007 $m	(Deficit) 2007 $m	Net surplus/ (deficit) 2007 $m	Surplus 2006 $m	(Deficit) 2006 $m	Net surplus/ (deficit) 2006 $m
Defined benefit funds – surplus/(deficit) position						
Australia						
Suncorp Staff Superannuation Plan	**4**	**–**	**4**	3	–	3
Promina Group Staff Superannuation Fund	**28**	**–**	**28**	–	–	–
AAMI Staff Superannuation Fund	**3**	**–**	**3**	–	–	–
New Zealand						
Vero and Asteron New Zealand Staff Pension Scheme Surplus	**–**	**(10)**	**(10)**	–	–	–
RIG Superannuation Fund Surplus	**–**	**(1)**	**(1)**	–	–	–
Commercial Union General Insurance Staff Pension Scheme	**3**	**–**	**3**	–	–	–
Guardian Assurance Superannuation Fund	**3**	**–**	**3**	–	–	–
Total surplus/(deficit)	**41**	**(11)**	**30**	3	–	3

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m
Present value of the defined benefit funds		
Fair value of plan assets at 30 June 2007 (2006: 30 June 2006)	**251**	9
Defined benefit obligations as at 30 June 2007 (2006: 30 June 2006)	**(212)**	(6)
Reduction in surplus for amount unable to be recognised under AASB 119	**(12)**	–
Adjustment for contributions tax	**3**	–
Net asset/(liability) recognised in the balance sheet	**30**	3
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	**6**	6
Acquisition of subsidiaries	**219**	–
Current service cost	**3**	–
Interest cost	**5**	1
Actuarial losses/(gains)	**(11)**	–
Benefits paid	**(12)**	(1)
Exchange difference	**2**	–
	212	6
Changes in the fair value of plan assets		
Opening fair value of plan assets	**9**	8
Acquisition of subsidiaries	**234**	–
Expected return on fund assets	**7**	1
Actuarial gains/(losses)	**9**	1
Contributions by Group companies	**2**	–
Benefits paid	**(12)**	(1)
Exchange difference	**2**	–
	251	9

26. Employee benefit obligations (continued)

(a) Defined benefit funds (continued)

	2007 %	2006 %
Major categories of funds assets as a percentage of total fund assets		
Cash	**5**	–
Equities	**62**	61
Listed property	**3**	10
Fixed income	**28**	19
Other	**2**	10

	$m	$m
Expense recognised in the Income Statement		
Current service cost	**3**	–
Interest cost	**4**	–
Expected return on fund assets	**(7)**	–
Decrease in allowance for contributions tax on net liability	**(8)**	–
Effect of recognition limit on surplus	**7**	–
Actuarial gains/(losses)	**(17)**	1
	(18)	1
The income/(expense) is recognised in the following line items in the Income Statement		
Other income	**1**	1
Other expenses	**(19)**	–
	(18)	1
Actual return on fund assets	**14**	1

	CONSOLIDATED 2007 %	2006 %
Principal actuarial assumptions and Employer Contributions		
(at the balance sheet date expressed as weighted averages)		
Australia		
Employer contribution rate[1]	**12 – 18**	–
Discount rate at 30 June (net of tax)	**5.1 – 5.3**	5.0
Expected return on fund assets at 30 June (net of tax)	**7 – 7.5**	7.0
Future salary increases	**4.0**	4.0
New Zealand		
Employer contribution rate[1]	**0 – 20**	–
Discount rate at 30 June (net of tax)	**5.0 – 5.5**	–
Expected return on fund assets at 30 June (net of tax)	**5.0 – 5.5**	–
Future salary increases	**4.5 – 5.0**	–

Notes

1 Not all funds are contributing for members.

The overall expected long-term rate of return on assets is 7.0% to 7.5%. 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.

26. Employee benefit obligations (continued)

(a) Defined benefit funds (continued)

Application of different measurement rules

The table below outlines the (surplus)/deficit arising from an application of AASB 119 *Employee Benefits* in the books of the Group compared to Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans* in the books of the defined benefit fund. The amounts derived under AAS 25 are not recognised in the financial reports of the Group.

	CONSOLIDATED			
	2007 (Surplus)/ deficit under AASB 119 $m	2007 (Surplus)/ deficit under AAS 25 [1] $m	2005 (Surplus)/ deficit under AASB 119 $m	2005 (Surplus)/ deficit under AAS 25 [1] $m
Defined benefit plan				
Australia				
Suncorp Staff Superannuation Plan	**–**	**–**	2	2
Promina Group Staff Superannuation Fund	**(28)**	**(43)**	–	–
AAMI Staff Superannuation Fund	**(3)**	**(3)**	–	–
	(31)	**(46)**	2	2
New Zealand				
Vero & Asteron New Zeland Staff Pension Scheme	**10**	**–**	–	–
RIG Superannuation Fund	**1**	**(1)**	–	–
Commercial Union General Insurance Staff Pension Scheme	**(3)**	**(3)**	–	–
Guardian Assurance Superannuation Fund	**(3)**	**(14)**	–	–
	5	**(18)**	–	–

Notes

1 These amounts are derived from audited financial reports of the funds or actuarial assessments within the last three years.

	CONSOLIDATED		
	2007 $m	2006 $m	2005 $m
Historic summary			
Present value of defined benefit obligations	**(212)**	(6)	(6)
Fair value of assets held by the funds	**251**	9	8
Surplus/(deficit)	**39**	3	2
Experience gains/(losses) arising on fund liabilities	**11**	–	–
Experience gains/(losses) arising on fund assets	**9**	1	–

(b) Defined contribution superannuation fund

Employer contributions to the Suncorp Staff Superannuation Plan, Promina Staff Superannuation Plan, AAMI Staff Superannuation Fund and Promina New Zealand Staff Superannuation Scheme recognised as an expense during the year ended 30 June 2007 were $64 million (2006: $59 million).

26. Employee benefit obligations (continued)

(c) Share based payments

Features of the plans currently in operation are as follows:

At an Extraordinary General Meeting of the Company held on 14 March 1997, shareholders approved an Exempt Employee Share Plan ("EESP"), a Deferred Employee Share Plan ("DESP"), and an Executive Option Plan ("EOP").

At the Annual General Meeting on 1 November 2000, shareholders approved the establishment of the Non-executive Directors Share Plan ("NEDSP").

On 21 October 2002, directors resolved to discontinue the issue of options to Executive Officers under the EOP and establish an Executive Performance Share Plan ("EPSP").

The Promina Exempt Share Plan and Deferral Plans were suspended in October 2006. There will be no further share allocations to these plans. On 1 April 2007 offers were made to executives and managers with shares in the Promina Senior Management Performance Share Plan to join the EPSP.

Shares required for the above Share Plans are acquired by an unrelated special purpose trustee and/or custodial companies in ordinary trading on the Australian Stock Exchange.

Feature	EESP	DESP	EPSP	NEDSP
Eligibility	Employees (other than Executive Officers) having completed 12 months service (or less at the discretion of the Board).	Employees having completed three months service (or less at the discretion of the Board).	Executive Officers.	Non-executive directors or their associates as approved by the Board.
Basis of share offers	Each eligible employee can receive shares up to a maximum value of $1,000 in any one year. The value of shares to be offered each year is determined by the Board based on the Group's overall performance.	Employees can elect to fund the acquisition of shares to be held under this Plan from their pre-tax remuneration or the Company may offer shares to employees as part of their terms of employment. Shares offered to employees under this Plan as part of their terms of employment are subject to achievement of tenure based criteria or criteria based on the individual's performance.	Offers under this Plan can be made on commencement of employment however offers are also made on an annual basis. The value of shares offered is determined by the Board based on the participating executive's level of remuneration and individual performance. Share offers are subject to performance criteria.	All non-executive directors are invited to participate in this Plan. If a director elects to participate, they nominate a percentage of their pre-tax remuneration that is to be used to fund the acquisition of shares on market. Shares acquired are held in the Plan for a maximum of ten years from the date of acquisition.
Price	The price of shares acquired for any offer is based on the Volume Weighted Average Price of the Company's shares over a five day period preceding the date of the offer.	Shares acquired from employees' pre-tax remuneration are purchased on market each month. The price of shares acquired for offers funded by the Company is based on the Volume Weighted Average Price of the Company's shares over a five day period preceding the date of the offer.	The price of shares acquired for any offers is based on the Volume Weighted Average Price of the Company's shares over a five day period preceding the date of the offer.	Shares acquired from director's pre-tax remuneration are purchased on market at predetermined dates during the year. Those dates reflect the terms of the Company's share trading policy.

26. Employee benefit obligations (continued)

(c) Share based payments (continued)

Feature	EESP	DESP	EPSP	NEDSP
Vesting	Fully vested, not subject to forfeiture.	If the acquisition of the shares is funded through the employee's remuneration the shares are fully vested at the date of acquisition. If entitlement to shares is subject to performance criteria, those shares will vest when that criteria is satisfied.	Vesting of shares is subject to satisfaction of performance criteria over the performance period.	As the acquisition of shares is funded through the participating director's remuneration, the shares are fully vested at the date of acquisition.
Performance criteria	Shares offered to employees under this Plan are not subject to individual performance criteria.	If the acquisition of the shares is funded through the employee's remuneration no performance criteria apply. If the acquisition of shares is funded by the Company then performance criteria are applied. Those criteria will either be tenure based or based on the individual's performance over specified periods.	The criteria is based on total shareholder returns ("TSR") achieved by the Company over a performance period compared to the TSR by a comparator group comprising the Top 50 Industrial companies in the S&P/ASX 100, excluding listed property trusts. No shares are vested unless the Company's TSR ranking at the end of a performance period is above the 50th percentile of the comparator group. If the Company's TSR ranking is less than the 50th percentile no shares will vest, at the 50th percentile 50% of shares will vest and at or above the 75th percentile 100% of the shares will vest. Between the 50th and 75th percentiles, 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.	Not applicable.

26. Employee benefit obligations (continued)

(c) Share based payments (continued)

Feature	EESP	DESP	EPSP	NEDSP
Performance criteria (continued)			A performance period generally commences on the date of offer to participate in the EPSP and the first performance measurement point is three years after the offer date. The employee has the right to elect to receive an allocation of shares at that point, based on the performance result described above, or extend the performance period a further two years. If the employee elects to accept the year three performance result, any shares subject to that same offer that are not allocated are forfeited. After year three, performance measurements are undertaken on a six monthly basis, in March and September each year, up to the end of year five. Employees electing to extend the performance period from three to five years 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 employee's 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 period from the end of year three to the end of year five inclusive. Shares not allocated at the end of year five are forfeited.	

26. Employee benefit obligations (continued)

(c) Share based payments (continued)

Feature	EESP	DESP	EPSP	NEDSP
Waiver of TSR criteria			The TSR criterion was waived in relation to the October 2004 and 2005 allocations. However, conditions regarding service periods remain in force.	
Minimum holding period	Three years from date of allocation, or upon cessation of employment.	One year or as otherwise specified in the terms of individual offers.	No minimum holding period applies once shares have been allocated unless otherwise determined by the Board.	None.
Plan maximum limit	Shares must not be issued under this Plan if the number to be issued would exceed 5% of total shares on issue for the Company when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option Plan of the Company.	Shares must not be issued under this Plan if the number to be issued would exceed 5% of total shares on issue for the Company when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option Plan of the Company.	Shares must not be issued under this Plan if the number to be issued would exceed 5% of total shares on issue for the Company when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option Plan of the Company.	Shares must not be issued under this Plan if the number to be issued would exceed 5% of total shares on issue for the Company when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option Plan of the Company.
Dividend entitlements	Full entitlement from the date of shares are held in the Plan.	Full entitlement from the date shares are held in the Plan.	Full entitlement from date of vesting.	Full entitlement from the date shares are held in the Plan.
Voting rights	Participating employees have the right to vote from the date shares are held in the Plan.	Participating employees have the right to vote from the date shares are held in the Plan.	Voting rights are held by the Plan Trustee until shares have vested with the participating employee.	Participating directors have the right to vote from the date shares are held in the Plan.

26. Employee benefit obligations (continued)

(c) Share based payments (continued)

Options

At 30 June 2007 unissued fully paid ordinary shares of the Company under the Executive Option Plan are:

Issue date of option	Start date	Expiry date	Exercise price of option[1] $	Strike price[2] $	Number of options held at 30 June 2007	Number of options held at 30 June 2006
20 Sep 2001	31 Mar 2006	20 Sep 2006	11.62	13.94	–	289,667
22 Apr 2002	31 Oct 2006	22 Apr 2007	12.30	[3]	–	116,666
					–	406,333

Notes:

1 The exercise price of options granted is the weighted average market price of the Company's shares in the week preceding the issue date of the option.

2 The strike price is sometimes referred to as a "hurdle price". Options are only exercisable if the volume weighted average price of the Company's shares over a continuous five day trading period on the Australian Stock Exchange, during the term of the options, exceeds the strike price.

3 The Company has adopted Total Shareholder Return ("TSR") as the performance measure on which option vesting is based and the comparator group is the Top 50 ASX listed companies in the S&P/ASX 100 excluding listed property trusts. Currently the following vesting schedule applies:

- If the Company's TSR growth over a relevant evaluation period is equal to the median TSR performance for the comparator group, then 50% of those options available to be exercised at that time will vest.
- For each additional percentile increase in the Company's ranking above the median, a further 2% of the relevant tranche of options will vest.
- If the Company's TSR growth over the relevant evaluation period reaches the 75th percentile, 100% of the options will vest.

Options granted under the Executive Option Plan carry no dividend or voting rights when unexercised.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2007 $	Number of options 2007	Weighted average exercise price 2006 $	Number of options 2006
Outstanding at the beginning of the year	**11.82**	**406,333**	11.10	1,235,599
Forfeited during the year	**12.30**	**(32,666)**	12.30	(14,000)
Exercised during the year	**11.77**	**(373,667)**	10.72	(815,266)
Outstanding at the end of the year	–	–	11.82	406,333
Exercisable at the end of the year		–		289,667

There were no options granted during the financial year as the Company ceased to issue options under the Executive Option Plan (2006: nil).

Options may only be exercised within the limitations imposed by the *Corporations Act 2001* and the Australian Stock Exchange Listing Rules. Under the Australian Stock Exchange Listing Rules, options may not be issued to directors under an employee incentive scheme without specific shareholder approval.

The market price of the Company's shares at 30 June 2007 was $20.17 (2006: $19.35). For details of the options exercised during the year, refer note 36(b). The weighted average share price at the dates of exercise of the options was $20.75 (2006: $19.98).

26. Employee benefit obligations (continued)

(c) Share based payments (continued)

Shares

Details of the deferred ordinary shares granted under the EPSP as long-term incentives in this or previous financial years which affect remuneration this year are detailed below:

Assignment date	Initial allotment date	Fair value of share $	Number of shares 30 June 2007	Number of shares 30 June 2006
13 Dec 2002	12 Dec 2006	6.554	**72,926**	126,526
01 Jan 2003	05 Jan 2006	6.843	**100,000**	100,000
01 Jan 2003	05 Jan 2007	7.139	**100,000**	100,000
01 Jan 2003	05 Jan 2008	7.397	**100,000**	100,000
01 Oct 2003	30 Sep 2006	7.090	**63,390**	313,848
08 Dec 2003	30 Sep 2006	7.090	**–**	3,965
17 Feb 2004	30 Sep 2006	7.090	**–**	3,100
25 Feb 2004	30 Sep 2006	7.090	**–**	4,453
04 May 2004	30 Sep 2007	7.090	**5,871**	5,871
01 Jul 2004	30 Sep 2007	7.090	**1,530**	1,530
01 Aug 2004	30 Sep 2007	7.090	**–**	7,163
01 Sep 2004	30 Sep 2007	7.090	**22,884**	22,884
01 Oct 2004	30 Sep 2007 [1]	17.865	**268,587**	311,916
01 Oct 2004	30 Sep 2007 [2]	20.755	**100,000**	100,000
01 Feb 2005	30 Sep 2007 [1]	17.865	**15,216**	15,216
01 Mar 2005	30 Sep 2007 [1]	17.865	**3,281**	3,281
01 Oct 2005	30 Sep 2008 [3]	24.790	**366,134**	400,108
01 Oct 2005	30 Sep 2008 [4]	29.410	**120,000**	120,000
01 Oct 2006	30 Sep 2009	12.410	**560,669**	–
01 Apr 2007	30 Sep 2009 [5]	11.410	**454,235**	–
17 Apr 2007	30 Sep 2007 [6]	20.570	**13,571**	–
17 Apr 2007	13 Dec 2007 [6]	20.570	**2,405**	–
17 Apr 2007	05 Jan 2008 [6]	17.320	**9,900**	–
17 Apr 2007	30 Sep 2008 [6]	20.570	**18,312**	–
17 Apr 2007	30 Sep 2008 [6]	7.790	**18,462**	–
			2,417,373	1,739,861

Notes:

1 Fair value of these shares was revised from 9.005 to 17.865 as a result of the waiver of TSR criteria upon a modification of a condition on 24 October 2006.

2 Fair value of these shares was revised from 9.005 to 20.755 as a result of the waiver of TSR criteria upon a modification of a condition on 24 October 2006.

3 Fair value of these shares was revised from 11.22 to 24.79 as a result of the waiver of TSR criteria upon a modification of a condition on 7 June 2007.

4 Fair value of these shares was revised from 11.22 to 29.41 as a result of the waiver of TSR criteria upon a modification of a condition on 7 June 2007.

5 Offer to Promina executives in line with the terms and conditions of the EPSP on 1 April 2007.

6 Adjustment to shares assigned as a result of the entitlement offer made on 17 April 2007.

26. Employee benefit obligations (continued)

(c) Share based payments (continued)

Shares (continued)

The movement in the number of shares is as follows:

	Number of shares 2007	Number of shares 2006
Outstanding at the beginning of the year	**1,739,861**	1,281,366
Assigned during the year	**1,107,956**	530,477
Allocated during the year	**(204,997)**	–
Forfeited during the year	**(117,791)**	(49,011)
Released during the year	**(107,656)**	(22,971)
Outstanding at the end of the year	**2,417,373**	1,739,861

The fair value of services received in return for deferred ordinary shares granted are 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 model and reflects the fact that entitlement to the shares is dependent on meeting performance hurdles based on Total Shareholder Return. The entitlement to the shares are also subject to non-market conditions but these are not taken into account in the grant date fair value measurement of the services received.

	Measurement dates							
	06-Jan-03	06-Jan-03	06-Jan-03	01-Oct-03	01-Oct-04	01-Oct-05	01-Oct-06	01-Apr-07
Fair value at measurement date	$6.843	$7.139	$7.397	$7.090	$9.005	$11.220	$12.390	$11.410
Share price	$11.24	$11.24	$11.24	$11.95	$15.47	$19.71	$21.94	$20.80
Expected volatility (based on the Company's historic volatility)	22%	22%	22%	22%	20%	20%	17%	19%
Vesting period	3 years	4 years	5 years	3 years	3 years	3 years	3 years	2.5 years
Dividend yield	4.2%	4.2%	4.2%	5.0%	5.3%	4.7%	4.9%	5.0%
Risk-free interest rate (based on Australian Government bonds)	4.860%	4.860%	4.860%	4.912%	5.172%	5.340%	5.800%	6.200%

The amount included in the consolidated Income Statement in relation to the deferred ordinary shares for the year ended 30 June 2007 was $11 million (2006: $5 million).

Other share based payments

Details of the shares issued under the EESP, DESP and NEDSP are as follows:

	Dates on which shares were issued/allocated	Total number of shares issued/ allocated	Issue/ allocation prices	Fair value (market value at dates of issue/allocation)	Amounts received from employees
2007 financial year	Various dates	660,994	Various, based on market value at date of issue	$14 million	$7 million
2006 financial year	Various dates	767,945	Various, based on market value at date of issue	$15 million	$8 million

The amounts recognised in the Income Statement of the Group during the year in relation to the issue of shares under the EESP, DESP and NEDSP was $6,146 (2006: $61,909).

In addition, during the financial year $11 million (2006: $4 million) was recognised in the Income Statement of the Group to acquire shares to the value of $1,000 (2006: $500) for each employee eligible under the EESP. These shares will be issued in October 2007.

27. Provisions

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Directors' retirement benefits	**1**	1	**1**	1
Other	**11**	14	**6**	6
Total provisions	**12**	15	**7**	7

Directors' retirement benefits
Provision is made for expected future retirement benefits to be paid in relation to directors of the Group.

Other provisions
Other provisions include provisions for the costs of meeting obligations under lease and other contracts.

	Directors' retirement benefits $m	Other $m	Total $m
2007			
Consolidated			
Balance at the beginning of the financial year	**1**	**14**	**15**
Provisions made during the year	**–**	**–**	**–**
Provisions used during the year	**–**	**(3)**	**(3)**
Balance at the end of the financial year	**1**	**11**	**12**
Company			
Balance at the beginning of the financial year	**1**	**6**	**7**
Provisions made during the year	**–**	**–**	**–**
Provisions used during the year	**–**	**–**	**–**
Balance at the end of the financial year	**1**	**6**	**7**
2006			
Consolidated			
Balance at the beginning of the financial year	2	62	64
Provisions made during the year	–	24	24
Provisions used during the year	(1)	(72)	(73)
Balance at the end of the financial year	1	14	15
Company			
Balance at the beginning of the financial year	2	52	54
Provisions made during the year	–	8	8
Provisions used during the year	(1)	(54)	(55)
Balance at the end of the financial year	1	6	7

28. Unearned premiums and unexpired risk liabilities

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Unearned premiums – general insurance	**3,206**	1,376	**–**	–
Unexpired risk liabilities – general insurance	**–**	24	**–**	–
Total unearned premiums and unexpired risk liabilities	**3,206**	1,400	**–**	–

(a) Unearned premium liabilities – general insurance

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Movements in unearned premium liabilities				
Balance at the beginning of the financial year	**1,376**	1,345	**–**	–
Acquisition of subsidiaries	**1,709**	–	**–**	–
Premiums written during the year	**3,794**	2,675	**–**	–
Premiums earned during the year	**(3,680)**	(2,644)	**–**	–
Net foreign exchange difference	**7**	–	**–**	–
Balance at the end of the financial year	**3,206**	1,376	**–**	–
Current	**3,193**	1,376	**–**	–
Non-current	**13**	–	**–**	–
Total unearned premium liabilities	**3,206**	1,376	**–**	–

29. Outstanding claims liabilities

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Outstanding claims – general insurance	**7,150**	4,248	**–**	–
Outstanding claims – life insurance	**131**	24	**–**	–
Total outstanding claims	**7,281**	4,272	**–**	–

(a) Outstanding claims liabilities – general insurance

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Gross central estimate – undiscounted	**6,960**	4,000	**–**	–
Risk margin	**1,409**	1,056	**–**	–
Claims handling expenses	**280**	178	**–**	–
	8,649	5,234	**–**	–
Discount to present value	**(1,499)**	(986)	**–**	–
Gross outstanding claims liabilities – discounted	**7,150**	4,248	**–**	–
Current	**2,512**	1,160	**–**	–
Non-current	**4,638**	3,088	**–**	–
	7,150	4,248	**–**	–

29. Outstanding claims liabilities (continued)

(a) Outstanding claims liabilities – general insurance (continued)

Reconciliation of movement in discounted outstanding claims liability

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Opening net outstanding claims liabilities	**3,761**	3,736	**–**	–
Prior periods				
Claims payments	**(781)**	(683)	**–**	–
Discount unwind	**143**	139	**–**	–
Margin release on prior periods	**(113)**	(94)	**–**	–
Incurred claims due to changes in assumptions and experience	**(422)**	(400)	**–**	–
Change in discount rate	**(47)**	(58)	**–**	–
Change in prudential margin percentage	**(109)**	–	**–**	–
Acquisition of Subsidiaries				
Outstanding claims liabilities acquired	**2,334**	–	**–**	–
Claims payments	**(323)**	–	**–**	–
Discount unwind	**41**	–	**–**	–
Margin release on prior periods	**(44)**	–	**–**	–
Incurred claims due to changes in assumptions and experience	**(92)**	–	**–**	–
Change in discount rate	**(36)**	–	**–**	–
Net foreign exchange difference	**5**	–	**–**	–
Deferred premium	**18**	–	**–**	–
Change in risk margin	**106**	–	**–**	–
Current period				
Incurred claims	**2,644**	2,034	**–**	–
Claims payments	**(1,084)**	(913)	**–**	–
Closing net outstanding claims liabilities	**6,001**	3,761	**–**	–
Reinsurance and other recoveries on outstanding claims liabilities	**1,149**	487	**–**	–
Gross outstanding claims liabilities	**7,150**	4,248	**–**	–

29. Outstanding claims liabilities (continued)

(a) Outstanding claims liabilities – general insurance (continued)

Claims development tables

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the six most recent accident years. Amounts are net of reinsurance and third party recoveries.

Accident Year	Prior $m	2002 $m	2003 $m	2004 $m	2005 $m	2006 $m	2007 $m	Total $m
Consolidated								
Estimate of ultimate claims cost:								
At end of accident year		936	1,014	1,035	1,168	1,204	1,239	
One year later		945	992	1,051	1,057	1,109		
Two years later		921	928	914	928			
Three years later		853	822	822				
Four years later		836	718					
Five years later		772						
Current estimate of cumulative claims cost		772	718	822	928	1,109	1,239	
Cumulative payments		(605)	(428)	(328)	(241)	(143)	(44)	
Outstanding claims – undiscounted	931	167	290	494	687	966	1,195	4,730
Discount	(327)	(29)	(49)	(80)	(118)	(185)	(253)	(1,041)
Deferred premium	–	–	–	–	–	–	(22)	(22)
Outstanding claims – long tail	604	138	241	414	569	781	920	3,667
Outstanding claims – short tail								898
Claims handling expense								247
Risk margin								1,189
Total net outstanding claims liability								6,001
Reinsurance and other recoveries on outstanding claims liabilities								1,149
Total gross outstanding claims liabilities								7,150

The reconciliation of the movement in outstanding claims liabilities and the claims development tables have been presented on a net of reinsurance and other recovery basis to give the most meaningful insight into the impact on the Income Statement.

30. Gross policy liabilities

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Investment contract policy liabilities				
Gross investment contract liabilities at beginning of financial year	**1,558**	1,268	**–**	–
Movement in investment contract policy liabilities reflected in the Income Statement	**176**	208	**–**	–
Foreign exchange difference	**9**	–	**–**	–
Investment contract contributions recognised in policy liabilities	**221**	82	**–**	–
Investment contract policy liabilities acquired	**2,743**	–	**–**	–
Gross investment contract policy liabilities at end of financial year	**4,707**	1,558	**–**	–
Insurance contract policy liabilities				
Gross insurance contract liabilities at beginning of financial year	**2,348**	2,023	**–**	–
Movement in insurance contract policy liabilities reflected in the Income Statement	**299**	306	**–**	–
Foreign exchange difference	**3**	–	**–**	–
Insurance contract contributions recognised in policy liabilities	**231**	19	**–**	–
Insurance contract policy liabilities acquired	**398**	–	**–**	–
Gross insurance contract policy liabilities at end of financial year	**3,279**	2,348	**–**	–
Total life insurance policy liabilities	**7,986**	3,906	**–**	–
Current	**750**	745	**–**	–
Non-current	**7,236**	3,161	**–**	–
Total life insurance policy liabilities	**7,986**	3,906	**–**	–
Unvested policyowner benefits				
Unvested policyowner benefits at beginning of financial year	**270**	323	**–**	–
Unvested policyowner benefits acquired	**19**	–		
Increase/(decrease) in unvested policyowner benefits	**(47)**	(53)	**–**	–
Unvested policyowner benefits at end of financial year	**242**	270	**–**	–
Liabilities ceded under reinsurance				
Liabilities ceded under reinsurance at beginning of financial year	**61**	43	**–**	–
Movement in reinsurance assets reflected in the Income Statement	**24**	18	**–**	–
Policy liabilities acquired	**170**	–	**–**	–
Liabilities ceded under reinsurance at end of financial year	**255**	61	**–**	–
Current	**(5)**	3	**–**	–
Non-current	**260**	58	**–**	–
Total liabilities ceded under reinsurance	**255**	61	**–**	–

31. Outside beneficial interests

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m
Outside beneficial interests	**1,256**	1,002

Outside beneficial interests represent unitholder funds held and managed in controlled managed investment schemes by parties other than the Group and are presented as a liability in accordance with AASB 132.

32. Securitisation liabilities

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Secured				
Class A1 Note invested AUD	**3,151**	2,980	**–**	–
Class A1 Note invested EUR	**136**	223	**–**	–
Class A1 Note invested USD	**109**	158	**–**	–
Class A2 Note invested AUD	**17**	96	**–**	–
Class A2 Note invested EUR	**2,232**	1,557	**–**	–
Class A2 Note invested USD	**92**	153	**–**	–
Class A3 Note invested AUD	**219**	260	**–**	–
Class B Notes AUD	**301**	273	**–**	–
Short Term Warehouse Securities AUD	**1,691**	–	**–**	–
Total securitisation liabilities	**7,948**	5,700	**–**	–

33. Bonds, notes and long term borrowings

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Unsecured				
Offshore borrowings	**3,988**	3,412	**3,988**	3,412
Long term securities issued	**2,296**	2,092	**2,296**	2,092
Drawdown facility	**54**	–	**–**	–
Total bonds, notes and long term borrowings	**6,338**	5,504	**6,284**	5,504

34. Subordinated notes

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Fixed rate notes due September 2011	**–**	200	**–**	200
Floating rate notes due September 2011	**–**	75	**–**	75
Fixed rate notes due June 2013 (USD)	**277**	306	**277**	306
Fixed rate notes due September 2014	**126**	130	**–**	–
Floating rate notes due September 2014	**65**	65	**–**	–
Floating rate notes due September 2015	**220**	220	**220**	220
Fixed rate notes due June 2016	**194**	200	**194**	200
Floating rate notes due September 2016	**100**	100	**100**	100
Fixed rate notes due October 2016	**93**	–	**–**	–
Fixed rate notes due June 2017 (GBP)	**470**	–	**–**	–
Fixed rate notes due September 2025	**125**	–	**–**	–
Floating rate notes due September 2025	**125**	–	**–**	–
Perpetual floating rate notes	**407**	170	**407**	170
Total subordinated notes	**2,202**	1,466	**1,198**	1,271

The notes are unsecured obligations of the Group. Payments of principal and interest on the notes have priority over Company dividend payments only, and in the event of the winding-up of the Company the rights of the note holders will rank in preference only to the rights of the preference and ordinary shareholders.

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 are reduced by 20% for each of their last five years to maturity.

35. Preference shares

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
1,440,628 preference shares each fully paid (2006: 2,500,000)	**144**	250	**144**	250
Total preference shares	**144**	250	**144**	250

The Company's preference shares are perpetual, paying fixed non-cumulative dividends with certain terms periodically reset. The first reset date occurred on 14 September 2006, with $106 million worth of shares being converted into ordinary shares. The next reset date is 14 September 2011. Holders have an option on each reset date to request the preference shares be exchanged for ordinary shares of approximately equal value to the original issue price of the preference shares.

Holders of the preference shares 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.

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 ordinary shareholders with one vote per preference share. The limited circumstances are set out in the Information Memorandum.

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

Three million reset preference shares with a par value of $300 million acquired as part of the business combination with Promina Group Limited, were redeemed during the period.

36. Capital and reserves

(a) Reconciliation of movement in capital and reserves attributable to equity holders of the parent

	Issued capital $m	Share-based payments $m	Preference shares $m	Treasury shares $m	General reserves for credit losses $m	Hedging reserve $m	Assets available for sale reserve $m	Other reserves $m	Retained profits $m	Total $m	Minority interests $m	Total equity $m
2007												
Consolidated												
Balance at the beginning of the financial year	3,007	9	–	(43)	93	14	1	13	1,341	4,435	–	4,435
Disposal of subsidiary	–	–	–	–	–	–	–	–	–	–	(7)	(7)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	8	8
Total recognised income and expense	–	–	–	–	–	50	2	–	1,064	1,116	–	1,116
Transfer to general reserve for credit losses	–	–	–	–	26	–	–	–	(26)	–	–	–
Shares issued	7,329	–	–	–	–	–	–	–	–	7,329	–	7,329
Issue costs	(23)	–	–	–	–	–	–	–	–	(23)	–	(23)
Conversion of preference shares to ordinary shares	106	–	–	–	–	–	–	–	–	106	–	106
Share-based remuneration	–	9	–	–	–	–	–	–	–	9	–	9
Treasury shares purchased	–	–	–	(32)	–	–	–	–	–	(32)	–	(32)
Currency translation differences	–	–	–	–	–	–	–	17	–	17	–	17
Dividends to shareholders	–	–	–	–	–	–	–	–	(567)	(567)	–	(567)
Balance at the end of the financial year	10,419	18	–	(75)	119	64	3	30	1,812	12,390	1	12,391

36. Capital and reserves (continued)

(a) Reconciliation of movement in capital and reserves attributable to equity holders of the parent (continued)

	Issued capital $m	Share-based payments $m	Preference shares $m	Treasury shares $m	General reserves for credit losses $m	Hedging reserve $m	Assets available for sale reserve $m	Other reserves $m	Retained profits $m	Total $m	Minority interests $m	Total equity $m
2006												
Consolidated												
Balance at the beginning of the financial year	2,796	5	244	(27)	–	–	–	12	1,484	4,514	747	5,261
Effect of change in accounting policy – remeasure	–	–	6	–	–	(17)	–	–	(47)	(58)	–	(58)
Effect of change in accounting policy – reclassify	–	–	(250)	–	48	–	–	–	(51)	(253)	(747)	(1,000)
Balance at the beginning of the financial year – restated	2,796	5	–	(27)	48	(17)	–	12	1,386	4,203	–	4,203
Total recognised income and expense	–	–	–	–	–	31	1	1	916	949	–	949
Transfer to general reserve for credit losses	–	–	–	–	45	–	–	–	(45)	–	–	–
Shares issued	211	–	–	–	–	–	–	–	–	211	–	211
Share-based remuneration	–	4	–	–	–	–	–	–	–	4	–	4
Treasury shares purchased	–	–	–	(16)	–	–	–	–	–	(16)	–	(16)
Dividends to shareholders	–	–	–	–	–	–	–	–	(916)	(916)	–	(916)
Balance at the end of the financial year	3,007	9	–	(43)	93	14	1	13	1,341	4,435	–	4,435

36. Capital and reserves (continued)

(a) Reconciliation of movement in capital and reserves attributable to equity holders of the parent (continued)

	Issued capital $m	Share-based payments $m	Preference shares $m	General reserve for credit losses $m	Hedging reserve $m	Other reserves $m	Retained profits $m	Total $m
2007								
Company								
Balance at the beginning of the financial year	**3,007**	**8**	**–**	**93**	**18**	**13**	**687**	**3,826**
Total recognised income and expense	**–**	**–**	**–**	**–**	**49**	**–**	**834**	**883**
Transfer to general reserve for credit losses	**–**	**–**	**–**	**26**	**–**	**–**	**(26)**	**–**
Shares issued	**7,329**	**–**	**–**	**–**	**–**	**–**	**–**	**7,329**
Conversion of preference shares to ordinary shares	**106**	**–**	**–**	**–**	**–**	**–**	**–**	**106**
Share issued costs	**(23)**	**–**	**–**	**–**	**–**	**–**	**–**	**(23)**
Share-based remuneration	**–**	**9**	**–**	**–**	**–**	**–**	**–**	**9**
Dividends to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(573)**	**(573)**
Balance at the end of the financial year	**10,419**	**17**	**–**	**119**	**67**	**13**	**922**	**11,557**
2006								
Company								
Balance at the beginning of the financial year	2,796	5	244	–	–	13	862	3,920
Effect of change in accounting policy – remeasure	–	–	6	–	(12)	–	21	15
Effect of change in accounting policy – reclassify	–	–	(250)	48	–	–	(48)	(250)
Balance at the beginning of the financial year – restated	2,796	5	–	48	(12)	13	835	3,685
Total recognised income and expense	–	–	–	–	30	–	817	847
Transfer to general reserve for credit losses	–	–	–	45	–	–	(45)	–
Shares issued	211	–	–	–	–	–	–	211
Share-based remuneration	–	3	–	–	–	–	–	3
Dividends to shareholders	–	–	–	–	–	–	(920)	(920)
Balance at the end of the financial year	3,007	8	–	93	18	13	687	3,826

36. Capital and reserves (continued)

(b) Share capital

	COMPANY					
	Ordinary shares		Partly paid shares		Non-participating shares	
	2007 '000	2006 '000	**2007 '000**	2006 '000	**2007 '000**	2006 '000
Share capital						
Balance at the beginning of the financial year	**556,707**	545,846	**–**	11	**2**	2
Issued due to exercise of options under the Executive Option Plan	**374**	815	**–**	–	**–**	–
Issued under the Dividend Reinvestment Plan	**6,701**	6,613	**–**	–	**–**	–
Issued as settlement of cash settleable warrants relating to the Group's acquisition of GIO Insurance Investment Holdings A Pty Ltd and its wholly-owned subsidiaries	**–**	3,422	**–**	–	**–**	–
Converted from partly paid to fully paid ordinary shares	**–**	11	**–**	(11)	**–**	–
Converted from preference shares	**5,408**	–	**–**	–	**–**	–
Issued as consideration for acquisition of subsidiaries	**280,279**	–	**–**	–	**–**	–
Issued under entitlements offer	**75,426**	–	**–**	–	**–**	–
Balance at the end of the financial year	**924,895**	556,707	**–**	–	**2**	2

Effective 1 July 1998 the *Company Law Review Act* abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

Ordinary shares

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.

Executive Option Plan

During the year 373,667 options (2006: 815,266) were exercised as part of the Executive Option Plan as follows:

Month of exercise	Number of ordinary shares	Issue price $	Month of exercise	Number of ordinary shares	Issue price $
2007					
September 2006	**289,667**	11.62			
November 2006	**84,000**	12.30			
2006					
July 2005	99,300	8.89	September 2005	98,800	8.89
July 2005	84,000	10.25	September 2005	25,000	11.62
July 2005	274,333	11.62	November 2005	102,667	12.30
August 2005	53,500	8.89	April 2006	16,666	11.62
August 2005	61,000	11.62			

36. Capital and reserves (continued)

(b) Share capital (continued)

Dividend Reinvestment Plan

On 2 October 2006, 3,218,575 ordinary shares were issued at $21.49 under the Dividend Reinvestment Plan in respect of the 30 June 2006 final dividend.

On 16 March 2007, 3,482,431 ordinary shares were issued at $21.27 under the Dividend Reinvestment Plan in respect of the 30 June 2007 interim dividend.

(c) Treasury shares

Treasury shares represent the value of shares held by an entity that the Group is required to include in the consolidated financial reports. The value of shares will be reversed against share capital when the underlying shares vest in the employee or are sold. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(d) 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 that have not yet occurred.

(e) Assets available for sale reserve

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

(f) Other reserves

Pre-conversion reserve

Retained profits and reserves of Metropolitan Permanent Building Society, amounting to $13 million as at 1 July 1988, being the date of conversion of the Society to Suncorp-Metway Ltd (then known as Metway Bank Limited), have been placed in a pre-conversion reserve account. Under a trust arrangement the reserve will not be available for distribution to shareholders in the ordinary course of business.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial reports of foreign operations where their functional currency is different to the presentation currency of the Group, as well as from the translation of liabilities that hedge the Group's net investment in a foreign subsidiary.

37. Dividends

	COMPANY 2007 Cents per share	COMPANY 2007 $m	COMPANY 2006 Cents per share	COMPANY 2006 $m
Ordinary shares				
Final 2006 dividend (franked) paid 2 October 2006 (2006: 3 October 2005)	**50**	**279**	45	248
Special 2005 dividend (franked) paid 3 October 2005	**–**	**–**	75	412
Interim 2007 dividend (franked) paid 16 March 2007 (2006: 3 April 2006)	**52**	**294**	47	260
		573		920
Preference shares recognised as liability				
Half-yearly dividend (franked) paid 14 September 2006 (2006: 14 September 2005), recognised in interest expense	**315**	**8**	315	8
Half-yearly dividend (franked) paid 14 March 2007 (2006: 14 March 2006), recognised in interest expense	**251**	**4**	310	8
		12		16
Dividends not recognised in the balance sheet				
In addition to the above dividends, since year end the directors have proposed the following:				
Final 2007 dividend (franked) expected to be paid on 1 October 2007 (2006: 2 October 2006) out of retained profits at 30 June 2007, but not recognised as a liability in the balance sheet	**55**	**509**	50	279
Total dividends not recognised in the balance sheet		**509**		279

Franked dividends proposed, declared or paid during the year were fully franked at the tax rate of 30% (2006: 30%).

	COMPANY 2007 $m	COMPANY 2006 $m
Dividend franking account		
The franked portions of the dividends recommended after 30 June 2007 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the financial year ending 30 June 2008.		
Franking credits available for subsequent financial years based on a tax rate of 30% (2006: 30%)	**777**	**484**

The available franking credits are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of the current tax liabilities;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax-consolidated group at the year end; and

(d) franking credits that the Company may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $220 million (2006: $116 million). In accordance with the tax consolidation legislation, the Company as the head company of the ultimate single tax-consolidated group has assumed the franking credits of Promina Group Limited.

38. Risk management

A structured risk management framework has been implemented throughout the Group in respect of all risks. The universe of risks includes credit, market, liquidity, insurance, compliance, operational, reputational and strategic risks. The framework comprises organisational structure, policies, methodologies, processes, delegations of authority, monitoring and reporting requirements.

With the recent acquisition of Promina Group Limited, an integrated risk management framework across Suncorp and Promina is in the process of being developed. An Executive General Manager Group Risk has been appointed and charged with developing a common risk framework across the Group using consistent risk charters and a common language. Chief Risk Officers (CRO's) will exist in Banking, Insurance, Wealth Management and New Zealand supported by Risk and Compliance Managers embedded in the Lines of Business. A Risk Council comprising the Executive General Manager Group Risk and all CRO's has been established with appropriate representation across the whole group. This Council will be consulted in the development of consistent policies and reporting across the combined group and will bring these policies and framework to the Executive Risk Committee before being presented to the Board Risk Committee.

The Board Risk Committee has delegated authority from the Board to approve and oversee the processes used to identify, evaluate and manage risk and recommends the Group's risk appetite to the Board. Management has the primary responsibility and accountability for embedding the risk management framework within the business operations of the Group. Group functions such as Risk and Compliance & Assurance provide monitoring and advisory functions on an independent basis. These Group functions facilitate the reporting of the status, appropriateness and quality of risk management capabilities to the Board Risk Committee.

Management is required as part of the monthly Due Diligence process or quarterly compliance reporting process to identify and report any risk events which have occurred and any breaches in authorities, policies or legislative requirements. These reports are endorsed through management and executives and included in the Chief Executive Officer's Due Diligence Report to the Board Risk Committee.

There are a number of compliance, risk management and review departments within the Group who are responsible for monitoring, reviewing and reporting on specific areas of the Group's operations. The specific areas covered include Group Risk Policy, Credit Approval, Credit Recovery, Credit Risk Systems, Credit Review, Compliance & Assurance and Audit, Operational Risk, Market Risk and Basel II.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk affects all business units within the Group. The main categories of operational risk are internal and external fraud, processing failure, system failure, disasters and business interruption and risks associated with products, clients and business practices, vendor, suppliers and service providers, employment practices and workplace safety.

Board policy requires Managers to understand the operational risks to which the business is exposed, assess the exposures and implement necessary mitigators. Suncorp has adopted a Group Operational Risk Management Methodology to identify, analyse, mitigate and monitor these operational risks and uses qualitative criteria to assess its exposure to operational risk. The methodology adopted is based on a structured approach to risk profiling.

Each business line completes an end-to-end risk register covering operational risks within that business line. Recognising that risk profiles change over time, management are required to monitor and manage these on an ongoing basis.

These risk registers are required to be reviewed and signed off at least annually by all Managers, General Managers and their respective Group executives. Group Operational Risk reviews the completed risk registers for currency, consistency and completeness from a Group perspective. A consolidated Operational Risk Profile is prepared based on these risk registers and reviewed by the Group Executive and endorsed by the executive Risk Committee for annual submission to the Risk Committee which authorises the limits of acceptable risk. This annual declaration process supports the execution of the Risk Management Declaration required by APRA.

Operational loss experience is monitored and tracked to enable identification and correction of deficiencies in policies, processes and procedures for managing operational risk. Risk events are regularly reported to the Executive Risk Committee and the Board Risk Committee. The operational loss data accumulated over time is used for Group monitoring and reporting, and for analysis and identification of trends and potential systemic issues.

Risks which cross all business units such as business continuity, regulatory compliance, outsourcing, IT security, project management as well as employment practices and workplace safety are subject to group-wide policy and framework and coordinated centrally.

Further details of the specific risk management frameworks applying to Banking activities, General Insurance activities and Wealth Management activities are contained in notes 39(g), 40(f) and 41(g) respectively.

39. Specific disclosures – Banking

39(a) Contribution to profit from Banking activities

	CONSOLIDATED BANKING 2007 $m	2006 $m
Net interest income		
Interest revenue	**3,428**	2,878
Interest expense	**(2,518)**	(2,030)
	910	848
Net banking fee and commission income		
Fee and commission revenue	**220**	202
Fee and commission expense	**(80)**	(73)
	140	129
Other operating revenue		
Net profits on trading and investment securities	**5**	4
Net profits on derivative and other financial instruments	**7**	8
Other income	**11**	8
	23	20
Non-interest income	**163**	149
Total income from Banking activities	**1,073**	997
Operating expenses		
Staff	**(305)**	(284)
Occupancy	**(33)**	(26)
Computer and depreciation	**(49)**	(45)
Communication	**(29)**	(29)
Advertising and promotion	**(27)**	(25)
Other	**(36)**	(51)
	(479)	(460)
Contribution to profit from Banking activities before impairment losses on loans and advances and tax	**594**	537
Impairment losses on loans and advances	**(25)**	(31)
Contribution to profit before tax from Banking activities	**569**	506

Whilst Business Banking and Retail Banking have been disclosed as separate reportable segments in note 4, the Executive and Board also consider the total Banking result disclosed above as relevant to understanding the Group's performance. The above profit result consolidates Business Banking, Retail Banking and Treasury Services (which is within the "Other" segment in note 4). This also represents the results of the consolidated Banking group which is regulated by APRA.

The information set out above includes transactions that have been eliminated in the consolidated Income Statement. It excludes dividends received from subsidiaries.

39. Specific disclosures – Banking (continued)

39(b) Average banking balance sheet and margin analysis

The following table sets out the major categories of interest earning assets and interest bearing liabilities of the Banking activities of the Group together with the respective interest revenue or expense and the average interest rates.

Average balances used are predominantly daily averages for interest bearing items and monthly averages for non-interest bearing items.

	CONSOLIDATED BANKING					
	Average balance 2007 $m	**Interest 2007 $m**	**Average rate 2007 %**	Average balance 2006 $m	Interest 2006 $m	Average rate 2006 %
Assets						
Interest earning assets						
Trading securities	**4,245**	**266**	**6.27**	3,636	205	5.64
Gross loans, advances and other receivables	**41,026**	**3,115**	**7.59**	36,306	2,641	7.27
Other interest earning assets	**929**	**47**	**5.06**	629	32	5.09
Total interest earning assets	**46,200**	**3,428**	**7.42**	40,571	2,878	7.09
Non-interest earning assets						
Other assets	**4,938**			2,401		
Total non-interest earning assets	**4,938**			2,401		
Total assets	**51,138**			42,972		
Liabilities						
Interest bearing liabilities						
Deposits and short term borrowings	**30,061**	**1,685**	**5.61**	27,900	1,407	5.04
Securitisation liabilities	**6,265**	**407**	**6.50**	4,261	252	5.91
Bonds, notes and long term borrowings	**6,265**	**364**	**5.81**	5,582	312	5.59
Subordinated notes [1]	**820**	**57**	**6.95**	734	49	6.68
Preference shares [1]	**86**	**5**	**5.81**	151	10	6.25
Total interest bearing liabilities	**43,497**	**2,518**	**5.79**	38,628	2,030	5.26
Non-interest bearing liabilities						
Other liabilities	**1,459**			711		
Total non-interest bearing liabilities	**1,459**			711		
Total liabilities	**44,956**			39,339		
Net assets	**6,182**			3,633		
Analysis of interest margin and spread						
Interest earning assets	**46,200**	**3,428**	**7.42**	40,571	2,878	7.09
Interest bearing liabilities	**43,497**	**2,518**	**5.79**	38,628	2,030	5.26
Net interest spread			**1.63**			1.83
Net interest margin	**46,200**	**910**	**1.97**	40,571	848	2.09

Notes

1 Excludes subordinated debt and preference shares notionally allocated to General Insurance as capital funding and the associated interest cost charged to General Insurance.

39. Specific disclosures – Banking (continued)

39(b) Average banking balance sheet and margin analysis (continued)

The following table allocates changes in net interest income between changes in volume and changes in rate for the last financial year. Volume and rate variances have been calculated on the movement in average balances and the changes in the interest rates on average interest earning assets and average interest bearing liabilities.

	CONSOLIDATED BANKING 2007 VS 2006 Changes due to:		
	Volume $m	Rate $m	Total $m
Interest earning assets			
Trading securities	**36**	**25**	**61**
Gross loans, advances and other receivables	**351**	**123**	**474**
Other interest earning financial assets	**15**	**–**	**15**
Change in interest income	**402**	**148**	**550**
Interest bearing liabilities			
Deposits and short term borrowings	**115**	**163**	**278**
Securitisation liabilities	**124**	**31**	**155**
Bonds, notes and long term borrowings	**39**	**13**	**52**
Subordinated notes	**6**	**2**	**8**
Preference shares	**(4)**	**(1)**	**(5)**
Change in interest expense	**280**	**208**	**488**
Change in net interest income	**122**	**(60)**	**62**

39(c) Impaired assets

	CONSOLIDATED BANKING		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Impaired loans				
Gross balances:				
with specific provisions set aside	**109**	70	**101**	66
without specific provisions set aside	**48**	29	**33**	20
Gross impaired assets	**157**	99	**134**	86
Specific provision for impairment (note 16)	**(25)**	(21)	**(20)**	(19)
Net impaired assets	**132**	78	**114**	67
Size of gross impaired assets				
Less than 1 million	**36**	24	**19**	13
Greater than 1 million but less than 10 million	**84**	47	**78**	46
Greater than 10 million	**37**	28	**37**	27
	157	99	**134**	86
Past due loans not shown as impaired assets	**160**	133	**159**	131
Interest income on impaired assets recognised in the Income Statements				
Net interest charged and recognised as revenue in the Income Statements during the financial year	**3**	5	**3**	5
Analysis of movements in gross impaired assets				
Balance at the beginning of the financial year	**99**	69	**86**	61
Recognition of new impaired assets and increases in previously recognised impaired assets	**99**	80	**85**	71
Impaired assets written off during the financial year	**(14)**	(17)	**(11)**	(14)
Impaired assets which have been restated as performing assets or repaid	**(27)**	(33)	**(26)**	(32)
Balance at the end of the financial year	**157**	99	**134**	86

39. Specific disclosures – Banking (continued)

39(d) Concentration of deposits and borrowing

Details of the concentration of financial liabilities used by the consolidated Banking entity to raise funds are as follows:

	CONSOLIDATED BANKING 2007 $m	2006 $m
Australian funding sources		
Retail deposits	**19,180**	16,932
Wholesale funding	**11,354**	9,765
AUD domestic program	**984**	1,807
Securitisation	**5,387**	3,646
	36,905	32,150
Overseas wholesale funding sources		
USD $15 billion program		
European commercial paper and medium term note market	**6,932**	6,187
Subordinated debt program (USD)	**514**	306
Securitisation	**2,569**	2,064
	10,015	8,557
	46,920	40,707
Comprised of the following:		
Deposits from other banks	**238**	202
Other money market deposits	**3,327**	2,797
Amounts owed to other depositors	**15,990**	14,137
Certificates of deposits	**10,835**	9,311
Promissory notes and other liabilities evidenced by paper	**2,659**	2,273
Other borrowed funds	**13,871**	11,987
	46,920	40,707

39(e) Large exposures

Details of the aggregate number of the consolidated Banking entity's corporate exposures (including direct and contingent exposures) which individually were greater than 5% of the Group's Banking capital resources (Tier 1 and Tier 2 capital) are as follows:

	CONSOLIDATED BANKING 2007 Number	2006 Number
25% and greater	**–**	–
20% to less than 25%	**1**	1
15% to less than 20%	**–**	1
10% to less than 15%	**2**	1
5% to less than 10%	**7**	7

39. Specific disclosures – Banking (continued)

39(f) Banking capital adequacy

APRA adopts a risk-based capital assessment framework for Australian banks based on internationally accepted capital measurement standards. This risk-based approach requires eligible capital to be divided by total risk weighted assets, with the resultant ratio being used as a measure of a Bank's capital adequacy.

Capital is divided into Tier 1, or "core" capital, and Tier 2, or "supplementary" capital. For capital adequacy purposes, eligible Tier 2 capital cannot exceed the level of Tier 1 capital. Under APRA guidelines, the Bank must maintain a ratio of qualifying capital to risk weighted assets of at least 9.5%.

The Bank is required to deduct from total capital investments in entities engaged in general insurance and life insurance. Goodwill relating to these investments is required to be deducted from Tier 1 capital.

The measurement of risk weighted assets is based on:

- A credit risk based approach wherein risk weighting is applied to on-Balance Sheet assets and to the credit equivalent of unrecognised financial instruments. Categories of risk weights are assigned based upon the nature of the counterparty and the relative liquidity of the assets concerned; and
- The recognition of risk weighted assets attributable to market risk arising from trading and commodity positions. Trading and commodity Balance Sheet positions do not attract a risk weighting under the credit risk based approach.

The consolidated Banking capital adequacy position is set out below:

	CONSOLIDATED BANKING	
	2007 $m	2006 $m
Tier 1		
Ordinary share capital	**10,436**	3,007
Preference shares	**144**	244
Reserves	**2**	–
Retained profits	**1,046**	861
Less: Goodwill	**(7,738)**	(1,305)
Less: Software assets	**(76)**	–
Less: Other intangible assets per APRA definitions	**(53)**	(74)
Less: Net deferred tax asset	**(64)**	(18)
Total Tier 1 capital	**3,697**	2,715
Tier 2		
Asset revaluation reserve (pre AIFRS)	**–**	8
APRA general reserve for credit losses	**154**	118
Perpetual subordinated notes	**170**	170
Subordinated notes	**1,030**	1,131
Total Tier 2 capital	**1,354**	1,427
Deductions from capital		
Less: Investments in non-Banking controlled entities (net of goodwill component deducted from Tier 1)	**(1,983)**	(852)
Less: Guarantees and facilities to non-Banking subsidiaries	**(5)**	(5)
Total deductions	**(1,988)**	(857)
Total capital base	**3,063**	3,285

39. Specific disclosures – Banking (continued)

39(f) Banking capital adequacy (continued)

Risk weighted assets

	CONSOLIDATED BANKING				
	Carrying value		**Risk weights**	**Risk weighted balance**	
	2007	2006		**2007**	2006
	$m	$m	%	**$m**	$m
Assets					
Cash, claims on Reserve Bank of Australia, short term claims on Australian Commonwealth Government and other liquid assets	**482**	504	0	**–**	–
Claims on banks and local governments	**184**	151	20	**37**	30
Loans secured against residential housing	**17,513**	16,600	50	**8,757**	8,300
Other assets	**20,553**	16,899	100	**20,553**	16,899
Loans with loan to valuation ratio in excess of 80%	**23**	14	200	**46**	28
Total banking assets	**38,755**	34,168		**29,393**	25,257

	Notional value	Credit equivalent	Risk weights	**Risk weighted balance**	
	2007	2007		**2007**	2006
	$m	$m	%	**$m**	$m
Off balance sheet positions					
Guarantees entered into in the normal course of business	**314**	185	20-100	**141**	156
Commitments to provide loans and advances	**7,407**	1,528	0-100	**1,016**	897
Capital commitments	**33**	33	100	**33**	8
Foreign exchange contracts	**16,313**	362	20-50	**94**	52
Interest rate contracts	**34,314**	357	20-50	**94**	78
Total off balance sheet positions	**58,381**	2,465		**1,378**	1,191
Assessed risk					
Total risk weighted assets				**29,393**	25,257
Total off balance sheet positions				**1,378**	1,191
Market risk capital charge				**292**	227
Total assessed risk				**31,063**	26,675
Risk weighted capital ratios				**%**	%
Tier 1				**11.90**	10.18
Tier 2				**4.36**	5.34
Deductions				**(6.40)**	(3.21)
Total risk weighted capital ratios				**9.86**	12.31

39. Specific disclosures – Banking (continued)

39(g) Banking risk management

Credit risk

Credit risk is the likelihood of future financial loss resulting from the failure of clients or counterparties to meet contractual payment obligations as they fall due. Credit risk is managed on a structured basis combining a well-defined framework that lays out the fundamental risk management principles and guidelines, with approval decisions being taken within credit approval authorities delegated by the Board.

The Board of Directors is the highest credit authority. The Board determines the Group credit risk appetite and also decisions individual credits where the exposure exceeds the level of authority delegated to the Management Committee.

Under authority of the Board of Directors our Board Risk Committee approves our risk management framework and monitors the effectiveness of the credit risk management by receiving regular reports on performance of the loan portfolios. The Board Risk Committee also defines and reviews (at least annually) our Credit Principles that are overarching statements establishing the Group's lending direction and setting the criteria within which management may make its decisions and take action.

The Risk division is an independent group responsible for the acceptance and management of credit risk. Within the direction defined by the Credit Principles, Risk has responsibility for: setting and maintaining detailed credit policies and standards; maintaining an independent credit chain with authority to accept credit risk; monitoring 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 (i.e. credit cards, personal loans and housing loans) and automated credit scoring is widely used to determine customer creditworthiness. Credit scoring is embedded within our 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 our 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, in need, automatic transfer to our central Credit Recovery unit.

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.

To ensure credit risk is managed in accordance with the approved risk management framework the Risk division, in conjunction with Compliance and Assurance division, undertake regular inspections of credit risk related activities of the various business segments and complete comprehensive analysis of the Group risk profile and provide timely reporting to senior management and the Board.

Market risk

Market risk is the risk of loss of current and future earnings from adverse moves in interest rates, foreign exchange rates and prices of other financial contracts including derivatives.

Interest rate risk

Interest rate risk is the risk of a loss of current and future Bank earnings from adverse moves in interest rates. The two major sources of interest rate risk in relation to Banking are non-trading activities and trading activities. Under authority of the Board of Directors, the Board Risk Committee has responsibility for oversight of interest rate risk for the Group. The Board Risk Committee approves all interest rate risk policies and reviews relevant risk measures. Executive management of interest rate risk is delegated to the Asset and Liability Committee who review risk measures and limits, provide guidance, endorse non-traded interest rate risk strategy and monitor execution of strategy.

<u>Non-traded interest rate risk</u>

Non-traded interest rate risk arises from the structure and characteristics of the Banking assets and liabilities and in the mismatch in their repricing dates. The principal objective of non-traded interest rate risk management is to maximise and stabilise net interest income and the present value of the balance sheet over time providing secure and sustainable net interest income in the long term.

Operational management of non-traded interest rate risk is delegated to the Balance Sheet Management section of the Treasury service division. Non-traded interest rate risk is independently monitored against approved policies by the Group Market Risk section of the Risk division.

The risk to the net interest earnings over the next 12 months from a change in interest rates is measured on at least a monthly basis. A simulation model is used to combine underlying financial position data with assumptions about new business and expected repricing behaviour to calculate the Banking entity's net interest income at risk. The analysis is generally based on contractual repricing information.

A 1% parallel shock in the yield curve is used to determine the potential adverse change in net interest income in the ensuing 12 month period. This is a standard risk quantification measure. A number of supplementary scenarios comprising variations in size and timing of interest rate moves together with changes in the balance sheet size and mix are also used to provide a range of net interest income outcomes.

39. Specific disclosures – Banking (continued)

39(g) Banking risk management (continued)

Market risk (continued)

The figures in the table below indicate the potential change in net interest income for an ensuing 12 month period for current and previous reporting periods. The change is expressed as a percentage of expected net interest earnings based on a 1% parallel adverse shock.

	CONSOLIDATED BANKING	
	2007	2006
	%	%
Average monthly exposure	**0.33**	1.67
High month exposure	**0.89**	2.76
Low month exposure	**–**	0.02

As a measure of longer-term sensitivity, the Banking entity measures the present value sensitivity of its balance sheet and 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.

The present value sensitivity of the Bank's balance sheet represents the present value of the net interest income at risk of all known cashflows in the future. A predefined adverse interest rate shock is applied to the market curve and the balance sheet is revalued. The difference between the present value of the balance sheet using the market curve and the shocked curve shows the sensitivity of the present value of the balance sheet to the predefined shock.

The figures in the table below indicate the potential adverse change in present value sensitivity of the Bank's balance sheet for current and previous reporting periods. The change is based on an adverse 1% shock.

	CONSOLIDATED BANKING	
	2007	2006
	$m	$m
Average monthly exposure	**34**	23
High month exposure	**43**	35
Low month exposure	**23**	13

The value at risk type analysis provides information on the potential adverse change that could occur to the present value of assets and liabilities under a range of possible interest rate scenarios where repricing dates do not match. The interest rate scenarios are derived from actual interest rate movements that have occurred over discrete three-month and two-year historical observation periods. A 97.5% confidence level and a one-month holding period are used for the simulation. The information is based on contractual repricing information.

	CONSOLIDATED BANKING	
	2007	2006
	$m	$m
Average monthly exposure	**11**	10
High month exposure	**14**	15
Low month exposure	**7**	6

Further details of non-traded interest rate risk in relation to Banking activities are set out in note 39(j).

39. Specific disclosures – Banking (continued)

39(g) Banking risk management (continued)

Market risk (continued)

Traded interest rate risk

The Banking entity trades a range of on-balance sheet and derivative interest rate products. The principal objective of traded interest rate risk management is to generate income through disciplined trading, provide a service to the Bank's customers and act as a market maker to the entity's own internal customers. Income is earned from spreads achieved through market making and from effective trading conducted within the traded market risk management framework.

Operational management of traded interest rate risk is delegated to the Trading and Risk Management sections of the Treasury Services division. Traded interest rate risk is independently monitored against approved policies on a daily basis by the Group Market Risk section of the Risk division.

Traded interest rate risk is managed using a framework that includes value at risk ("VaR") limits, sensitivity limits and stop loss limits. VaR is a statistical estimate of the potential loss that could be incurred if the Banking entity's trading positions were maintained for a pre-defined time period. A 99% confidence level and a one-day holding period are used for the simulation. A 99% confidence level implies that for every 100 days, the loss will not exceed the VaR on 99 of those days. The VaR model, based on a Monte Carlo simulation methodology, takes into account correlations between different positions and the potential for movements to offset one another within the individual portfolios. The major limitation of this methodology is that the historical market data used to forecast parameters of the model might not be an appropriate proxy of those parameters. Interest rate risk from proprietary trading activities is independently calculated and monitored on a daily basis. Actual results are back tested to check the accuracy of the model and scenario analysis is regularly performed to simulate more extreme market movements. All trading positions are valued daily and taken to the Income Statements on a fair value basis.

The VaR for the Banking entity's interest rate trading portfolios for the year was as follows:

	CONSOLIDATED BANKING	
	2007 **$m**	2006 $m
Average VaR	**0.05**	0.04
Maximum VaR	**0.19**	0.09
Minimum VaR	**0.02**	0.02

Foreign exchange risk

Foreign exchange risk is the risk of a loss of current and future earnings from adverse movements in exchange rates. The two sources of foreign exchange risk are non-trading activities (balance sheet management) and trading activities. Under authority of the Board of Directors, the Board Risk Committee has responsibility for oversight of foreign exchange risk for the Group. The Board Risk Committee approves all foreign exchange risk policies and reviews relevant risk measures. Executive management of foreign exchange risk is delegated to the Asset and Liability Committee who review risk measures and limits, provide guidance, endorse and monitor non-traded foreign exchange risk strategy.

Non-traded foreign exchange risk

Non-traded foreign exchange risk arises where investments in non-Australian operations expose current and future earnings to movements in foreign exchange rates. The objective of foreign currency exchange risk management is to minimise the impact on earnings of any such movements. The policy is to fully hedge any such exposure and accordingly minimal exposure to non-traded foreign exchange risk exists. All offshore borrowing facilities arranged as part of the overall funding diversification process have been hedged in respect of their potential foreign exchange risk, through the use of derivative financial instruments.

Traded foreign exchange risk

The Bank trades a range of foreign exchange products including derivatives. The principal objective of traded foreign exchange risk management is to generate income through disciplined trading, provide a service to the Bank's customers and act as a market maker to internal customers. Income is earned from spreads achieved through market making and from effective trading conducted within the traded market risk management framework.

Operational management of traded foreign exchange risk is delegated to the Trading and Risk Management section of the Treasury Services division. Traded foreign exchange risk is independently monitored against approved policies on a daily basis by the Group Market Risk section of the Risk division.

39. Specific disclosures – Banking (continued)

39(g) Banking risk management (continued)

Market risk (continued)

Traded foreign exchange risk is managed using a framework that includes VaR limits, position limits and stop loss limits. The VaR model, based on a Monte Carlo simulation methodology, takes into account correlations between different positions and the potential for movements to offset one another within the individual portfolios. The major limitation of this methodology is that the historical market data used to forecast parameters of the model might not be an appropriate proxy of those parameters. Foreign exchange risk from trading activities is independently calculated and monitored on a daily basis. Actual results are back tested to check the accuracy of the model and scenario analysis is regularly performed to simulate extreme market movements. All material trading positions are valued daily and taken to the Income Statements on a fair value basis.

The VaR for the foreign exchange trading portfolios for the year was as follows:

	CONSOLIDATED BANKING	
	2007 **$m**	2006 $m
Average VaR	**0.07**	0.08
Maximum VaR	**0.34**	0.25
Minimum VaR	**0.01**	0.01

Total traded market risk

Combined risk from both interest rate and foreign exchange trading activities is independently calculated using VaR methodology and monitored against approved limits on a daily basis. The risk calculations, based on the Monte Carlo simulation methodology, take into account correlations between different positions in both the interest rate and foreign exchange trading portfolios, that is, the potential for movements in one portfolio to offset movements in the other portfolio. The major limitation of this methodology is that the historical market data used to forecast parameters of the model might not be an appropriate proxy of those parameters. Actual results are back tested to check the accuracy of the model and scenario analysis is regularly performed to simulate more extreme market movements.

The VaR for the Bank's total trading activities for the year was as follows:

	CONSOLIDATED BANKING	
	2007 **$m**	2006 $m
Average VaR	**0.09**	0.08
Maximum VaR	**0.35**	0.30
Minimum VaR	**0.02**	0.02

Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. Liquidity risk arises from mismatches in the cash flows of financial transactions or the inability of financial markets to absorb the transactions of the Bank. Under authority of the Board of Directors, the Board Risk Committee has responsibility for oversight of liquidity risk. The Board Risk Committee approves all liquidity policies and reviews relevant risk limits. Executive management of liquidity risk is delegated to the Asset and Liability Committee who review risk measures and limits, provide guidance, endorse and monitor funding and liquidity strategy. The primary objective of liquidity policy is to ensure that the Group has sufficient funds available to meet all its known and potential commitments on a normal, going concern basis and in a crisis situation.

Liquidity risk is managed using a framework that includes going concern and name crisis scenario analysis, minimum high quality liquid asset ratios, minimum liquid asset ratios, liquidity concentration limits and other supplementary management trigger limits.

Operational management of liquidity risk is delegated to the Balance Sheet Management section of the Group Treasury division. Liquidity risk is independently monitored against approved policies on a daily basis by the Group Market Risk section of the Risk division.

39. Specific disclosures – Banking (continued)

39(h) Credit risk concentrations

Industry exposures associated with each asset class are detailed with respect to the Banking assets of the Group excluding investments in subsidiaries. Details of credit risk amounts for credit commitments are set out in note 46 and for derivative financial instruments in note 43. Risk concentrations by asset class are as follows:

	CONSOLIDATED BANKING						
	Trading securities $m	**Investment securities $m**	**Loans, advances and other receivables $m**	**Bank accepted bills $m**	**Credit commitments $m**	**Derivative instruments $m**	**Total risk $m**
2007							
Agribusiness	**–**	**–**	**3,388**	**9**	**23**	**–**	**3,420**
Construction and development	**–**	**–**	**4,269**	**7**	**367**	**–**	**4,643**
Financial services	**4,291**	**8**	**1,052**	**136**	**90**	**719**	**6,296**
Hospitality	**–**	**–**	**1,373**	**61**	**–**	**–**	**1,434**
Manufacturing	**–**	**–**	**787**	**3**	**–**	**–**	**790**
Professional services	**–**	**–**	**793**	**–**	**–**	**–**	**793**
Property investment	**–**	**–**	**5,060**	**634**	**–**	**–**	**5,694**
Real estate – Mortgage	**–**	**–**	**24,155**	**–**	**1,130**	**–**	**25,285**
Personal	**–**	**–**	**1,064**	**–**	**–**	**–**	**1,064**
Government and public authorities	**–**	**–**	**6**	**–**	**–**	**–**	**6**
Other commercial and industrial	**–**	**–**	**3,020**	**36**	**136**	**–**	**3,192**
	4,291	**8**	**44,967**	**886**	**1,746**	**719**	**52,617**
Receivables due from other banks							**42**
Total gross credit risk							**52,659**
2006							
Agribusiness	–	–	2,849	5	30	–	2,884
Construction and development	–	–	3,411	–	286	–	3,697
Financial services	3,773	3	674	31	42	494	5,017
Hospitality	–	–	982	38	–	–	1,020
Manufacturing	–	–	538	1	–	–	539
Professional services	–	–	642	–	–	–	642
Property investment	–	–	4,068	209	–	–	4,277
Real estate – Mortgage	–	–	22,519	–	753	–	23,272
Personal	–	–	826	–	–	–	826
Government and public authorities	–	–	4	–	–	–	4
Other commercial and industrial	–	–	1,978	32	338	–	2,348
	3,773	3	38,491	316	1,449	494	44,526
Receivables due from other banks							26
Total gross credit risk							44,552

39. Specific disclosures – Banking (continued)

39(i) Credit risk concentrations – impaired assets

	CONSOLIDATED BANKING					
	2007			2006		
	Total risk $m	**Impaired assets $m**	**Specific provision $m**	Total risk $m	Impaired assets $m	Specific provision $m
Agribusiness	**3,420**	**12**	**2**	2,884	11	3
Construction and development	**4,643**	**100**	**14**	3,697	41	12
Financial services	**6,296**	**–**	**–**	5,017	–	–
Hospitality	**1,434**	**6**	**2**	1,020	10	2
Manufacturing	**790**	**5**	**1**	539	5	1
Professional services	**793**	**9**	**2**	642	12	1
Property investment	**5,694**	**5**	**–**	4,277	4	–
Real estate – Mortgage	**25,285**	**6**	**2**	23,272	3	–
Personal	**1,064**	**2**	**1**	826	5	–
Government and public authorities	**6**	**–**	**–**	4	–	–
Other commercial and industrial	**3,192**	**12**	**1**	2,348	8	2
	52,617	**157**	**25**	44,526	99	21
Receivables due from other banks	**42**			26		
Total gross credit risk	**52,659**			44,552		

39. Specific disclosures – Banking (continued)

39(j) Interest rate risk

AASB 132 *Financial Instruments: Disclosure and Presentation* requires disclosures in relation to the contractual interest rate risk sensitivity from repricing mismatches at balance date and the corresponding weighted average effective interest rate. All assets and liabilities in the following table are shown according to the contractual repricing dates. The net mismatch represents the net value of assets, liabilities and derivative financial instruments that may be repriced in the time periods shown.

It should be noted that the Banking entity uses this contractual repricing information as one of the tools to manage interest rate risk. Interest rate risk is primarily managed from a net interest income and market value perspective in the manner outlined in note 39(g).

The earlier of repricing or maturity periods attributable to the Banking activities of the Group are as follows:

				CONSOLIDATED BANKING				
	Fixed or floating	0 to 1 month $m	1 to 6 months $m	7 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total Carrying Value $m	Effective interest rate %
2007								
Interest rate sensitive financial assets								
Cash and liquid assets	**Floating**	**383**	**–**	**–**	**–**	**–**	**383**	**6.25**
Trading securities	**Fixed**	**1,727**	**2,564**	**–**	**–**	**–**	**4,291**	**6.41**
Loans, advances and other receivables	**Floating**	**30,663**	**122**	**–**	**–**	**–**	**30,785**	**7.97**
Loans, advances and other receivables	**Fixed**	**978**	**1,604**	**2,354**	**8,983**	**142**	**14,061**	**7.25**
Total interest rate sensitive financial assets		**33,751**	**4,290**	**2,354**	**8,983**	**142**	**49,520**	
Interest rate sensitive financial liabilities								
Deposits and short term borrowings	**Floating**	**10,354**	**1,079**	**–**	**–**	**–**	**11,433**	**4.83**
Deposits and short term borrowings	**Fixed**	**7,174**	**11,206**	**1,525**	**–**	**–**	**19,905**	**6.49**
Securisation liabilities	**Floating**	**7,539**	**417**	**–**	**–**	**–**	**7,956**	**6.52**
Bonds, notes and long term borrowings	**Floating**	**5,693**	**118**	**–**	**–**	**–**	**5,811**	**6.53**
Bonds, notes and long term borrowings	**Fixed**	**–**	**302**	**1**	**160**	**10**	**473**	**5.95**
Subordinated notes	**Floating**	**414**	**784**	**–**	**–**	**–**	**1,198**	**7.19**
Preference shares	**Fixed**	**–**	**144**	**–**	**–**	**–**	**144**	**5.07**
Total interest rate sensitive financial liabilities		**31,174**	**14,050**	**1,526**	**160**	**10**	**46,920**	
Net assets		**2,577**	**(9,760)**	**828**	**8,823**	**132**	**2,600**	
Derivative financial instruments[1]		**(1,579)**	**8,222**	**47**	**(6,671)**	**(19)**	**–**	
Net mismatch		**998**	**(1,538)**	**875**	**2,152**	**113**	**–**	
Cumulative mismatch		**998**	**(540)**	**335**	**2,487**	**2,600**	**–**	

Notes

1 Notional principal amounts.

39. Specific disclosures – Banking (continued)

39(j) Interest rate risk (continued)

	Fixed or floating	CONSOLIDATED BANKING 0 to 1 month $m	1 to 6 months $m	7 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total Carrying Value $m	Effective interest rate %
2006								
Interest rate sensitive financial assets								
Cash and liquid assets	Floating	221	–	–	–	–	221	5.75
Trading securities	Fixed	–	3,773	–	–	–	3,773	5.84
Loans, advances and other receivables	Floating	17,227	10,779	2	2	2	28,012	7.63
Loans, advances and other receivables	Fixed	–	2,212	1,457	6,609	77	10,355	6.99
Total interest rate sensitive financial assets		17,448	16,764	1,459	6,611	79	42,361	
Interest rate sensitive financial liabilities								
Deposits and short term borrowings	Floating	9,891	1,161	–	–	–	11,052	4.43
Deposits and short term borrowings	Fixed	–	15,212	1,708	–	–	16,920	5.86
Securitisation liabilities	Floating	–	5,710	–	–	–	5,710	6.08
Bonds, notes and long term borrowings	Floating	–	5,003	–	–	–	5,003	6.13
Bonds, notes and long term borrowings	Fixed	–	–	–	488	13	501	5.98
Subordinated notes	Floating	–	1,071	–	–	–	1,071	6.70
Subordinated notes	Fixed	–	200	–	–	–	200	6.75
Preference shares	Fixed	–	250	–	–	–	250	6.25
Total interest rate sensitive financial liabilities		9,891	28,607	1,708	488	13	40,707	
Net assets		7,557	(11,843)	(249)	6,123	66	1,654	
Derivative financial instruments[1]		–	3,629	612	(4,217)	(24)	–	
Net mismatch		7,557	(8,214)	363	1,906	42	–	
Cumulative mismatch		7,557	(657)	(294)	1,612	1,654	–	

Notes

1 Notional principal amounts.

39. Specific disclosures – Banking (continued)

39(k) Maturity analysis of financial assets and liabilities

The following maturity distribution of financial assets and liabilities relating to Banking activities of the Group is based on contractual terms. It should be noted that the Banking entity does not use this contractual maturity information as presented in the management of the Balance Sheet. Additional factors are considered when managing the maturity profiles of the business.

	CONSOLIDATED BANKING							
	At call $m	Overdraft $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Unspecified $m	Total $m
2007								
Financial assets								
Receivables due from other banks	**42**	**–**	**–**	**–**	**–**	**–**	**–**	**42**
Loans, advances and other receivables (net of specific provisions)	**1,393**	**4,274**	**1,194**	**2,866**	**10,018**	**25,413**	**–**	**45,158**
	1,435	**4,274**	**1,194**	**2,866**	**10,018**	**25,413**	**–**	**45,200**
Financial liabilities								
Deposits and short term borrowings	**11,142**	**–**	**16,061**	**4,002**	**133**	**–**	**–**	**31,338**
Payables due to other banks	**25**	**–**	**–**	**–**	**–**	**–**	**–**	**25**
Securitisation liabilities	**–**	**–**	**–**	**–**	**–**	**6,284**	**–**	**6,284**
Bonds, notes and long term borrowings	**22**	**–**	**–**	**3**	**26**	**7,905**	**–**	**7,956**
Subordinated notes	**–**	**–**	**–**	**288**	**740**	**–**	**170**	**1,198**
Preference shares	**–**	**–**	**–**	**–**	**–**	**–**	**144**	**144**
	11,189	**–**	**16,061**	**4,293**	**899**	**14,189**	**314**	**46,945**
2006								
Financial assets								
Receivables due from other banks	26	–	–	–	–	–	–	26
Loans, advances and other receivables (net of specific provisions)	864	4,119	1,094	2,740	8,010	21,692	–	38,519
	890	4,119	1,094	2,740	8,010	21,692	–	38,545
Financial liabilities								
Deposits and short term borrowings	8,998	–	13,768	5,086	120	–	–	27,972
Payables due to other banks	120	–	–	–	–	–	–	120
Securitisation liabilities	36	–	2	2	19	5,651	–	5,710
Bonds, notes and long term borrowings	–	–	–	–	5,491	13	–	5,504
Subordinated notes	–	–	–	–	–	1,101	170	1,271
Preference shares	–	–	–	–	–	–	250	250
	9,154	–	13,770	5,088	5,630	6,765	420	40,827

39. Specific disclosures – Banking (continued)

39(l) Critical accounting estimates and judgements

Significant estimates and judgements are made by the Group to arrive at certain key asset and liability amounts disclosed in the financial reports. These estimates and judgements are continually being evaluated and are based on historical experience and other factors. These include expectations of future events that are believed to be reasonable under the circumstances.

The key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out below.

Provision for impairment – collective provision

A provision for impairment – collective provision is established against loan portfolios when events have occurred that have historically resulted in loan losses, but for which at balance date individual loans have not yet become impaired requiring individual (specific) provisioning. The collective provision is determined by identifying groups of loans with similar credit risk characteristics and loss events, and estimating the adverse impact of these events on future cash flows on the loans and subsequent potential losses that could arise.

Suncorp has determined its groups of loans with similar credit risk characteristics as follows:

- Retail loans, small business and non-credit risk rated business loans are grouped by product; and
- Credit risk rated business loans are grouped by the industry types, being agribusiness, commercial, development finance and property investment.

The key loss event identified for retail, small business and non-credit risk rated business loans is borrower in monetary default. The key loss events for credit risk rated business loans substantially align with existing credit review and management procedures to identify loans where events have occurred but which are currently not individually provisioned for.

The Group has developed models to estimate the adverse impact on future cash flows for each group of loans with similar credit risk characteristics. These models estimate impairment losses by applying probability of default and loss given default statistical factors derived from prior experience.

Each model determines an impairment loss based on the Group's historical experience. It is possible that the estimated impairment loss will differ from the actual losses to be incurred from the groups of identified impaired loans.

During the year ended 30 June 2007, estimates were reassessed in respect of the level of the Banking collective provision required over its loans, advances and other receivables. The provision decreased by $8 million due to changes in the model used to determine the collective provision ($11 million) offset by the impact of an increase in impaired assets ($3 million).

40. Specific disclosures – General Insurance

40(a) Contribution to profit from General Insurance activities

The specific disclosures for General Insurance contained in this note include the results of the personal insurance, commercial insurance and Vero New Zealand segments.

	CONSOLIDATED GENERAL INSURANCE	
	2007 $m	2006 $m
Net earned premium		
Direct premium revenue	**3,673**	2,639
Inwards reinsurance premium revenue	**7**	5
Premium revenue	**3,680**	2,644
Outwards reinsurance premium expense	**(208)**	(117)
	3,472	2,527
Net incurred claims		
Claims expense	**(2,766)**	(1,948)
Reinsurance and other recoveries revenue	**598**	315
	(2,168)	(1,633)
Underwriting expenses		
Acquisition costs	**(405)**	(329)
Movement in liability adequacy test deficiency	**6**	(9)
Other underwriting expenses	**(458)**	(320)
	(857)	(658)
Reinsurance commission revenue	**13**	5
Underwriting result	**460**	241
Investment revenue – insurance funds		
Investment income on insurance funds	**299**	259
Investment expense on insurance funds	**(30)**	(29)
	269	230
Insurance trading result	**729**	471
Investment income on shareholder funds	**240**	232
Investment expense on shareholder funds	**(16)**	(16)
Fee for service and other income	**179**	142
Share of net profit of associates and joint venture entities	**57**	25
Non-banking interest expense	**(87)**	(50)
Other expenses	**(126)**	(113)
	247	220
Contribution to profit from General Insurance activities before tax	**976**	691

Segment information set out above includes transactions that have been eliminated in the consolidated Income Statement. Capital funding represents interest expense on subordinated debt and preference shares allocated to General Insurance.

40. Specific disclosures – General Insurance (continued)

40(b) Net incurred claims

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

	CONSOLIDATED GENERAL INSURANCE					
	2007			2006		
	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	**3,639**	**(800)**	**2,839**	2,605	(550)	2,055
Discount and discount movement	**(297)**	**227**	**(70)**	(241)	108	(133)
	3,342	**(573)**	**2,769**	2,364	(442)	1,922
Reinsurance and other recoveries						
Undiscounted	**(644)**	**47**	**(597)**	(371)	59	(312)
Discount and discount movement	**37**	**(36)**	**1**	32	(21)	11
	(607)	**11**	**(596)**	(339)	38	(301)
Total direct business	**2,735**	**(562)**	**2,173**	2,025	(404)	1,621
Net inwards reinsurance			**(5)**			12
Total net claims incurred			**2,168**			1,633

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.

The major components of the prior year movements are:

- A decrease in the prior year provision for Public Liability due to recognising more of the emerging benefits of tort reforms;
- A decrease in the estimate of ultimate costs for prior years for CTP due to emerging experience being better than assumed at the prior valuation;
- A decrease in prior year provision for Workers' Compensation due to emerging experience continuing to be better than assumed at the prior valuation, in particular for lump sum payments; and
- A decrease in the prudential margins due to recognising diversification benefits between entities.

40. Specific disclosures – General Insurance (continued)

40(c) Managed funds

During the year, subsidiaries were licensed to maintain statutory insurance funds for external clients. The application of the statutory funds by the subsidiaries was restricted to the collection of premiums and the payment of claims, related expenses and other payments authorised under the relevant Acts. The subsidiaries 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. The statutory funds are of a separate and distinct nature. Therefore in accordance with AASB 127 *Consolidated and Separate Financial Statements*, income, expenses, assets and liabilities of the statutory funds are not included in the consolidated Income Statements and Balance Sheets.

New South Wales Self Insurance Corporation

A subsidiary, GIO General Limited, has a contractual agreement with the New South Wales Self Insurance Corporation as an agent for the New South Wales Treasury Managed Fund – Workers' Compensation Portfolio 1, Health Liability Claims, Other Claims and the Pre-Managed Fund Reserve. The NSW Treasury Managed Fund is a scheme of self-insurance introduced by the NSW Government in 1989 and protects the insurable assets and exposures of all NSW public sector agencies financially dependent on the Consolidated Fund, all public hospitals and a number of statutory authorities. The Pre-Managed Fund Reserve is in run-off and pays outstanding public liability claims.

New South Wales WorkCover

The WorkCover Authority of New South Wales is constituted by the *Workplace Injury Management* and *Workers' Compensation Act 1998* as a statutory corporation representing the Crown. The Nominal Insurer is established by the *Workers' Compensation Amendment (Insurance Reform) Act 2003*. The Nominal Insurer is the legal entity responsible for the NSW WorkCover Scheme. The funds of the Scheme are held in the Workers Compensation Insurance Fund, which are managed by the Nominal Insurer.

A subsidiary, GIO General Limited has been appointed as a Scheme Agent by the Nominal Insurer within the meaning of the 2003 Act to provide certain services in relation to premium collection and claims management for workers' compensation policies.

Victorian WorkCover

GIO Workers' Compensation (Victoria) Limited is an Authorised Agent under the Accident Compensation Act 1985 (Vic) ("the Act") and administers the Act and the Accident Compensation (WorkCover) Insurance Act 1993 (Vic) ("the Insurance Act"). The role of GIO Workers' Compensation (Victoria) Limited is limited to the collection of premium and the payment of claims and other authorised expenses.

40. Specific disclosures – General Insurance (continued)

40(d) Liability adequacy test deficiency

	2007 Australia Personal $m	2007 Australia Commercial $m	2007 Australia Total $m
Unearned premium liability	**1,972**	**796**	**2,768**
Related deferred acquisition costs	**(285)**	**(133)**	**(418)**
Related reinsurance asset	**–**	**(86)**	**(86)**
	1,687	**577**	**2,264**
Central estimate of present value of expected future cash flows arising from future claims	**1,647**	**617**	**2,264**
Risk margin	**103**	**52**	**155**
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	**(51)**	**(61)**	**(112)**
	1,699	**608**	**2,307**
Net deficiency	**12**	**31**	**43**
Deficiency recognised in the Income Statements:			
Write down of deferred acquisition costs	**10**	**7**	**17**
Recognition of unexpired risk liability	**–**	**(24)**	**(24)**
	10	**(17)**	**(7)**
Risk margin	**6.3%**	**8.4%**	**6.8%**

The application of the liability adequacy test in respect of net premium liabilities has identified a surplus for the New Zealand General Insurance business as at 30 June 2007.

For the purpose of the Liability Adequacy Test for the New Zealand General Insurance business at 30 June 2007, the present value of future cash flows for future claims, including the risk margin is $247 million, comprising the discounted central estimate of $235 million and a margin of $17 million less discounted reinsurance recoveries of $5 million.

During the financial year, management revised its methodology in relation to the classes used in the test to better reflect how the business is managed. The test as at 30 June 2007 uses two classes of business, being personal insurance and commercial insurance, whereas the test as at 30 June 2006 used four classes of business, being personal short tail, personal long tail, commercial short tail and commercial long tail. The effect of this change in the current financial year is an increase in deferred acquisition costs of $3 million and a decrease in underwriting expenses of $3 million. The effect of this change in future financial years will depend on the amount of net premium liabilities at future reporting dates.

40. Specific disclosures – General Insurance (continued)

40(d) Liability adequacy test deficiency (continued)

	2006			
	Personal	Commercial		
	Long tail $m	Short tail $m	Long tail $m	Total $m
Unearned premium liability	241	183	240	664
Related intangible assets	–	–	(3)	(3)
Related deferred acquisition costs	(12)	(37)	(31)	(80)
Related reinsurance asset	–	(4)	(6)	(10)
	229	142	200	571
Central estimate of present value of expected future cash flows arising from future claims	207	141	221	569
Risk margin	25	12	25	62
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	(1)	(7)	(2)	(10)
	231	146	244	621
Net deficiency	2	4	44	50
Deficiency recognised in equity:				
Write down of intangible assets	–	–	3	3
Write down of deferred acquisition costs	–	2	21	23
Recognition of unexpired risk liability	–	–	14	14
	–	2	38	40
Deficiency recognised in the Income Statements:				
Write down of deferred acquisition costs	2	2	(3)	1
Recognition of unexpired risk liability	–	–	9	9
	2	2	6	10
	2	4	44	50
Risk margin	12.2%	8.9%	11.3%	

The application of the liability adequacy test in respect of net premium liabilities identified a surplus for the personal short-tail for the General Insurance business as at 30 June 2006.

For the purposes of the test at 30 June 2006, the present value of future cash flows for future claims, including the risk margin for personal short tail was $568 million, comprising the discounted central estimate of $564 million, a risk margin of $29 million less discounted reinsurance recoveries of $25 million.

40. Specific disclosures – General Insurance (continued)

40(e) Minimum capital requirements

A minimum capital requirement ("MCR") is calculated by assessing the risks inherent in the business, which comprise:

- The risk that the outstanding claims liability is not sufficient to meet the obligations to policy holders arising from losses incurred up to the reporting date (outstanding claims risk);
- The risk that the unearned premium account is insufficient to meet the obligations to policy holders arising from losses expected to be incurred after the reporting date on existing policies (premium liabilities risk);
- The risk that the value of assets is diminished (investment risk);
- The risk that gross assets other than investment assets is diminished (Balance Sheet risk charge); and
- The risk of a catastrophe giving rise to major claims losses up to the retention amount under existing reinsurance arrangements (maximum event retention risk).

These risks are quantified to determine the minimum capital required under the prudential standards. This requirement is compared with the capital held in the General Insurance companies. Any provisions for outstanding claims and insurance risk in excess of the amount required to provide a level of sufficiency at 75% is classified as capital. The Group applies a risk margin to the central estimate of net outstanding claims to achieve a 94% (2006: 94%) confidence level.

	Consolidated Vero Insurance Limited 2007 $m	Consolidated Suncorp Metway Insurance Limited 2007 $m	2006 $m
Tier 1 Capital			
Share capital	**617**	**1,468**	1,468
Retained profits at end of reporting period	**567**	**703**	805
Technical provision in excess of liability valuation	**270**	**423**	499
Less: Tax effect of excess technical provisions	**(81)**	**(127)**	(150)
	1,373	**2,467**	2,622
Less:			
Goodwill	**(77)**	**(932)**	(932)
Other Tier 1 deductions	**(31)**	**–**	–
Total deductions from Tier 1 Capital	**(108)**	**(932)**	(932)
Total Tier 1 Capital	**1,265**	**1,535**	1,690
Tier 2 Capital			
Tier 2 Capital – subordinated debt	**720**	**283**	196
Total Tier 2 Capital	**720**	**283**	196
Total capital base	**1,985**	**1,818**	1,886
Outstanding claims risk charge	**266**	**455**	471
Premium liabilities risk charge	**173**	**210**	207
Investment risk charge	**231**	**253**	199
Balance sheet risk charge	**–**	**79**	76
General insurance catastrophe risk charge	**60**	**100**	100
Minimum capital requirement	**730**	**1,097**	1,053
Capital adequacy multiple	**2.72**	**1.66**	1.79

40. Specific disclosures – General Insurance (continued)

40(f) General Insurance risk management

The Boards of each of the general insurance entities have approved and issued a Risk Management Strategy that sets out the risk management framework for adoption within these entities. In addition the insurance entities have adopted a Risk Management Statement setting out specific guidelines for the investment of the entities' funds including the use of derivative financial instruments.

Reinsurance Management Strategies have been developed that outline the Group's management of risk in respect of reinsurance. These policies are in accordance with APRA Prudential Standards and have been approved by both the Board and APRA.

Insurance risk

Insurance risk is the risk that inadequate or inappropriate product design, pricing, underwriting, reserving, claims management and reinsurance management will expose an insurer to financial loss and consequent inability to meet its liabilities. The Group's insurance activities primarily involve the underwriting of risks and claim management. The Group has an objective to control insurance risk and thereby reduce the volatility of earnings.

Risk management objectives and 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 objective of these disciplines is to enhance the financial performance of the Group's overall insurance operations.

The key policies in place to mitigate risks arising from insurance contracts includes the following:

- The maintenance and use of sophisticated management information systems that provide up-to-date, reliable data on the risks to which the business is exposed at any point in time;
- The use of actuarial models based on historical data to calculate premiums and monitor claims patterns;
- The setting and adherence to underwriting guidelines that determine policies and procedures for acceptance of risk;
- The monitoring of natural disasters such as earthquakes, floods, storms and other catastrophes. Exposures to such risks is monitored using catastrophe models;
- The use of reinsurance to limit the Group's exposure to large single claims and accumulations of claims that arise from the same event;
- The monitoring of a reinsurers credit risk rating to control exposure to reinsurance counterparty default;
- The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claims payments with the maturity dates of assets; and
- The reduction in the variability in loss experience through diversification over classes of insurance business, geographical segments and large numbers of uncorrelated individual risks.

Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. 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 report. There are no embedded derivatives that are separately recognised from a host insurance contract.

Concentration of insurance risk

The Group writes general insurance business across a number of classes and industries, ensuring the portfolio is sufficiently diversified such that there is no undue concentration by risk class or by industry. The Group also writes business across broad geographical regions within Australia and New Zealand with some risks located in other countries. Catastrophe reinsurance is purchased to ensure that any accumulation of losses from one area is protected.

Any concentration of risk associated with the Group's run-off portfolios are actively managed and sought to be reduced through commutation or claim settlement.

Terms and conditions of reinsurance contracts

The Group reinsures a portion of the risks it underwrites in order to control exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of underwriting risk. The 2006/07 reinsurance programs consist of a combination of the following reinsurance protection:

- Catastrophe excess of loss coverage for property and motor portfolios;
- Excess of loss reinsurance for all casualty portfolios including Compulsory Third Party General Liability, Workers' Compensation, Motor and Householders' third party. This program provides protection on both a per risk and per event basis;
- Per risk Excess of loss for all Property classes;
- Facultative Excess of Loss reinsurance for various professional liability business;
- Quota Share coverage for some engineering business, all marine covering cargo, hull and marine liability, and a section of the public liability book; and
- Surplus coverage for construction business.

40. Specific disclosures – General Insurance (continued)

40(f) General Insurance risk management (continued)

Terms and conditions of reinsurance contracts (continued)

The 2007/08 reinsurance programs consist of a combination of the following reinsurance protection:

- Catastrophe excess of loss coverage for property and motor portfolios;
- Excess of loss reinsurance for all casualty portfolios including Compulsory Third Party General Liability, Workers' Compensation, Motor and Householders' third party. This program provides protection on both a per risk and per event basis;
- Per risk Excess of loss and Surplus coverage for all Property, Construction and Engineering classes;
- Excess of Loss reinsurance for Global and Risk Managed Business;
- Facultative Excess of Loss reinsurance for Professional Liability Business;
- Quota Share coverage for some engineering business, a section of the public liability book; and
- Excess of loss and Quota Share reinsurance for Marine portfolios providing per risk and per event covers for cargo, hull, marine liability and protection and indemnity.

Credit risk

Credit risk arises as a result of placement of reinsurance programs with counterparties and investment in financial instruments. The Board Risk Committee oversights the effectiveness of credit risk management in relation to General Insurance activities, including the investments and insurance portfolios, and reviews exposure to reinsurers.

The Group enters into reinsurance arrangements to preserve capital and manage earnings volatility from large individual or catastrophic claims. The credit risk associated with these arrangements is monitored and managed internally and by specialised reinsurance brokers operating within the international reinsurance markets. Over-concentration of credit risk is avoided by placement of cover with a number of reinsurers as well as setting participation limits and minimum security requirements on the program. Over 85% of reinsurance is placed with companies with Standard and Poor's credit ratings of "A" or better in accordance with policy.

Investments in financial instruments are held in accordance with the investment mandates and the operational guidelines on use of derivatives established in the Risk Management Statements. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings. The credit risk of financial assets that have been recognised in the Balance Sheets is the carrying amount.

Market risk

Market risk in the Group's General Insurance entity is the risk of loss of current and future earnings from adverse moves in interest rates, foreign exchange rates, equity prices, property prices and prices of other financial contracts including derivatives.

Interest rate risk

Interest rate risk arises from the investments in interest bearing securities. Any change in market value of investments in interest bearing securities is immediately recognised in the Income Statement. The investment portfolios hold significant interest bearing securities in support of corresponding insurance provisions, invested in a manner consistent with the expected duration of claims payments. The valuation of the insurance provisions includes the discounting to present value at balance date of expected future claim payments.

Any assessment of the impact of changes in interest rates on investment revenues must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims valuations. The investment portfolio mandates have been established on the basis of the appropriate matching principles so as to ensure the impact on the operating result of changes in interest rates is minimised. The discount rates being applied to future claims payments in determining the valuation of outstanding claims is disclosed in note 40(i). The exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out in note 40(g).

Foreign exchange risk

Foreign exchange risk in the Group's General Insurance entities is the risk of a loss of current and future earnings from adverse movements in exchange rates. The Group's General Insurance entities have ongoing foreign exchange obligations in relation to a number of outstanding claims which have arisen in relation to previously written offshore inwards reinsurance business. The outstanding claims liability has been established on the basis of assessments in relation to potential exposure.

As this business is no longer being written, the Group established a special investment portfolio to ensure sufficient funds were set aside to accommodate all final settlements. The claim payments will be predominantly in United States dollars. The investment portfolio consists of cash and short term discount securities with a forward foreign exchange agreement. The details of the forward foreign exchange agreement are contained in note 43(b).

40. Specific disclosures – General Insurance (continued)

40(f) General Insurance risk management (continued)

Other market risks

The Group has distinct investment portfolios, each with their own investment mandate, to assist in the overall management of the business. The liabilities portfolio supports the insurance provisions of the Group. The investment mandate for this portfolio requires investments be held in short-term securities and fixed interest securities, property, equities and futures. The portfolio is invested in a manner consistent with the expected duration of claims payments, ensuring any variation from a fully matched position is restrained. It includes assets (including foreign currency) to support the run-off of offshore liabilities in relation to the previous inwards reinsurance activities.

Shareholder investment portfolios are held by the insurance entities for the investment of funds in support of share capital and retained profits. To provide higher returns on capital maintained, the investment mandates for this portfolio has a more diverse investment strategy, including interests in equities, property and cash. The investment mandates while providing higher returns must also consider the volatility of investment returns and the impact of volatility on both the capital adequacy and profitability of the business. To do this, the investment mandates were developed using a value at risk framework. An acceptable level of risk was agreed and an investment strategy was developed where the likely returns would fall within the agreed risk limits with a high degree of confidence. The performance of the investment mandates are regularly reviewed to ensure the risks are within the predicted limits.

The investments are measured at market value and changes in market value are recognised in the Income Statements. The property investments are subject to regular valuations. This property portfolio is actively managed to ensure that any adverse financial impacts are appropriately monitored.

An overall downturn in the equities markets may impact on the future results of the Group. The impact of any significant movement is managed by ensuring that the investment portfolio consists of a diverse holding of leading Australian companies and through the limited use of derivative financial instruments, as discussed in note 43.

Liquidity risk

The ability to make claims payments in a timely manner is critical to the Group's General Insurance business. The investment portfolio mandates ensure that sufficient cash deposits are available to meet day-to-day obligations. Investment funds are set aside within the investment portfolio in support of these reserves, thereby ensuring the adequacy of investment portfolios to accommodate significant claims payments obligations. In addition, under the terms of the Group's reinsurance arrangements, immediate access to cash is available in the event of a major catastrophe.

40. Specific disclosures – General Insurance (continued)

40(g) Interest rate risk

The Group's exposure to interest rate risk from general insurance activities and the effective interest rate for classes of financial assets and financial liabilities is set out below:

	Floating interest rate $m	Fixed interest maturing in: 1 year or less $m	1 to 5 years $m	Over 5 years $m	Total carrying value $m	Effective interest rate %
2007						
Financial assets						
Cash	**411**	**–**	**–**	**–**	**411**	**6.08**
Debentures and corporate bonds	**424**	**2,662**	**2,057**	**266**	**5,409**	**5.82**
Derivatives	**–**	**–**	**(8)**	**–**	**(8)**	**6.12**
Government and semi government securities	**–**	**181**	**1,760**	**754**	**2,695**	**5.96**
Discounted securities	**14**	**179**	**–**	**–**	**193**	**7.32**
Other	**81**	**100**	**–**	**154**	**335**	**6.88**
	930	**3,122**	**3,809**	**1,174**	**9,035**	
Financial liabilities						
Interest bearing liabilities	**52**	**–**	**–**	**–**	**52**	**8.28**
Subordinated notes	**190**	**–**	**–**	**813**	**1,003**	**6.53**
	242	**–**	**–**	**813**	**1,055**	
Net financial assets	**688**	**3,122**	**3,809**	**361**	**7,980**	
Interest rate swap and futures	**235**	**1,695**	**1,882**	**66**	**3,878**	**6.42**
2006						
Financial assets						
Cash	209	–	–	–	209	5.57
Debentures and corporate bonds	–	1,138	1,578	32	2,748	6.18
Government and semi government securities	–	133	1,012	586	1,731	6.08
	209	1,271	2,590	618	4,688	
Financial liabilities						
Interest bearing liabilities	58	–	–	–	58	7.24
Subordinated notes	65	–	–	130	195	6.70
	123	–	–	130	253	
Net financial assets	86	1,271	2,590	488	4,435	
Interest rate futures	135	892	114	206	1,347	5.85

40. Specific disclosures – General Insurance (continued)

40(h) Critical accounting estimates and judgements

Significant estimates and judgements are made by the Group to arrive at certain key asset and liability amounts disclosed in the financial reports. These estimates and judgements are continually being evaluated and are based on historical experience and other factors. These include expectations of future events that are believed to be reasonable under the circumstances.

The key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out below.

Outstanding claims liability

A liability is recorded at the end of the year for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group.

The estimated cost of claims includes expenses to be incurred in settling claims net of the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Claims reported to the Group at the reporting date are estimated with due regard to the claim circumstance as reported by the insured, legal representative, assessor, loss adjuster and/or other third party and then combined, where appropriate, with historical evidence on the cost of settling similar claims. Estimates are reviewed regularly and are updated as and when new information arises.

The estimation of claims incurred but not reported ("IBNR") and claims incurred but not enough reported ("IBNER") are generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR and IBNER claims may often not be adequately reported until many years after the events giving rise to the claims have happened. Long-tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR and IBNER reserves. Short-tail claims are typically reported soon after the claim event, and hence, estimates are more certain.

In calculating the estimated cost of unpaid claims, the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical Group and industry experience that assumes that the development pattern of the current claims will be consistent with past Group experience and/or general industry benchmarks as appropriate. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. The ultimate net outstanding claims provision also includes an additional margin to allow for the uncertainty within the estimation process.

Details of specific actuarial techniques and assumptions used in calculating the outstanding claims liability at the reporting date are described in note 40(i).

Assets arising from reinsurance contracts and other recoveries

Estimates of reinsurance and other recoveries are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Group may not receive amounts due to it and these amounts can be reliably measured.

Assets arising from insurance managed funds contracts

Insurance managed funds fees receivables are based on management's best estimate of the likely fee at year end. There is a significant amount of judgement involved in the estimation process of the fees receivable which are not finalised for a number of years.

The fee revenue earned by the Group comprises a base fee component and an incentive fee based on performance results in relation to each fund managed by the Group.

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.

40(i) Actuarial assumptions and methods

The Group writes two classes of general insurance business: Personal and Commercial.

Personal Insurance includes the sale of home, pleasurecraft and motor insurance products throughout Australia and New Zealand and sale of compulsory third party insurance in Queensland and New South Wales.

Commercial Insurance includes the sale of products such as commercial motor vehicle, marine and aviation, public liability and professional indemnity to small and medium size enterprises in Australia and New Zealand, workers' compensation insurance and some inwards reinsurance.

Multiple actuarial methods have generally been applied to project future claim payments. This 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.

Claims inflation is incorporated into the resulting projected payments to allow for both expected levels of general economic inflation and superimposed inflation. Projected payments are discounted to allow for the time value of money.

The process for determining the value of outstanding claims liabilities in respect of these classes is described below:

40. Specific disclosures – General Insurance (continued)

40(i) Actuarial assumptions and methods (continued)

Assumptions

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

	2007				2006	
	Personal		Commercial		Personal	Commercial
	Aust	NZ	Aust	NZ	Aust	Aust
Weighted average term to settlement (years)	**3.3**	**0.3**	**5.8**	**1.0**	3.7	5.6
Inflation rate	**4.5%**	**3.0%**	**4.5%**	**3.0%**	4.4%	4.5%
Superimposed inflation rate	**3.3%**	**0.0%**	**2.7%**	**0.7%**	3.3%	4.5%
Discount rate	**6.5%**	**7.4%**	**6.4%**	**7.6%**	5.9%	5.9%
Discounted mean terms (years)	**2.7**	**0.3**	**3.8**	**0.9**	3.1	4.0
Claims handling expense ratio	**5.1%**	**6.1%**	**6.1%**	**4.9%**	4.9%	5.7%
Risk margin	**21.0%**	**13.7%**	**31.2%**	**35.2%**	23.8%	36.9%

Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

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.

Inflation and superimposed inflation

The inflation assumptions for the outstanding claim liabilities can be considered the sum of economic inflation and superimposed inflation. The former would be typically based on consumer price index and/or increases in average weekly earnings. Superimposed inflation reflects the past 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

The outstanding claims liabilities are discounted at a risk free discount rate. Discount rates are derived from market yields on Commonwealth Government securities in Australia and ten year government stock rate in New Zealand at the balance date.

Claims handling expense ratio

The future claims handling ratios were calculated with reference to past experience of claims handling costs as a percentage of past payments.

Risk margin

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate for each class of business and the diversification between classes. Uncertainty was analysed for each class taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment and the impact of legislative reform.

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall position which is intended to have approximately a 94% probability of sufficiency (2006: 94%).

The overall risk margin applied, allowing for diversification, was 24.5% (2006: 28.2%).

40. Specific disclosures – General Insurance (continued)

40(i) Actuarial assumptions and methods (continued)

Sensitivity analysis

Summary

The Group conducts sensitivity analyses to quantify the exposure to the risk of changes in the key underlying assumptions. The deviation of any variable from the assumptions will impact the performance and equity of the Group. Sensitivity analysis is conducted on each variable, whilst holding all other variables constant. It should be noted that the ranges used for sensitivity analysis that follows do not necessarily represent a reasonable range between which the assumptions may vary. The tables below and the analysis on the following page describe how a change in each assumption will affect the insurance liabilities.

Variable	Impact of movement in variable
Weighted average term to settlement	A decrease in the average term to settlement would imply that claims are being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the weighted average term would have a corresponding decrease or increase on claims expense.
Economic and superimposed inflation	Expected future payments for all classes are inflated. An increase or decrease in the assumed levels of either economic or superimposed inflation would have a corresponding impact on claims expense.
Discount rate	The outstanding claims liability is calculated with reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposite impact on the overall outstanding claims liability.
Claims handling expense ratio	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Risk margin	The outstanding claims liability includes a risk margin to allow for the inherent uncertainty in the estimates of future claims cost. An increase or decrease in the percentage risk margin will have a corresponding increase or decrease in the overall outstanding claims liability.

Impact of changes in key variables

The table below summarises the sensitivity of the net outstanding claims liabilities to changes in key variables.

Variable	Movement in variable	Net outstanding claims liabilities Increase/(decrease) $m
Recognised amounts as per the financial reports		6,001
Weighted average term to settlement	+0.5 years	35
	-0.5 years	(35)
Inflation rate	+1%	182
	-1%	(165)
Discount rate	+1%	(35)
	-1%	33
Claims handling expense ratio	+1%	57
	-1%	(57)
Risk margin	+1%	48
	-1%	(48)

41. Specific disclosures – Wealth Management

41(a) Contribution to profit from Wealth Management activities

	CONSOLIDATED WEALTH MANAGEMENT 2007 $m	2006 $m
Revenue		
Premium revenue	**288**	136
Outwards reinsurance premium expense	**(69)**	(28)
	219	108
Investment revenue	**1,060**	805
Other revenue	**145**	88
	1,424	1,001
Operating expenses		
Claims expense	**(165)**	(78)
Reinsurance recoveries revenue	**52**	20
	(113)	(58)
Policy acquisition expenses		
Commission	**(25)**	(10)
Other	**(56)**	(34)
Policy maintenance expenses		
Commission	**(16)**	(5)
Other	**(69)**	(41)
Investment management expenses	**(18)**	(14)
Other operating expenses	**(105)**	(47)
Increase in net insurance contract liabilities	**(274)**	(289)
Increase in net investment contract liabilities	**(299)**	(208)
Decrease in unvested policy owner benefits	**47**	55
Outside beneficial interests	**(275)**	(197)
	(1,203)	(848)
Contribution to profit from Wealth Management activities before tax	**221**	153

The above segment result includes profits relating to minority interests and policy owners' tax.

41. Specific disclosures – Wealth Management (continued)

41(b) Sources of Life Insurance operating profit

	Consolidated Wealth Management			
	Life Insurance contracts $m	Investment linked contracts $m	Other Life investment contracts $m	Total statutory funds $m
2007				
Shareholder's operating profit in the statutory funds				
The shareholder's operating profit after tax in the statutory funds is represented by:				
Investment earnings on shareholder's retained profits and capital	**21**	**7**	**–**	**28**
Emergence of shareholder's planned profits	**53**	**–**	**–**	**53**
Experience profit (loss)	**16**	**–**	**–**	**16**
Reversal of capitalised loss (losses capitalised)	**2**	**–**	**–**	**2**
Management Services Profit	**–**	**8**	**(1)**	**7**
	92	**15**	**(1)**	**106**
Cumulative losses carried forward at the end of the financial year	**–**	**–**	**–**	**–**
Life Act policy owners' operating profit in the statutory funds				
The Life Act policy owners' operating profit after tax in the statutory funds is represented by:				
Investment earnings on retained profits	**28**	**–**	**–**	**28**
Emergence of policy owner planned profits	**126**	**–**	**–**	**126**
Experience profit (loss)	**(8)**	**–**	**–**	**(8)**
	146	**–**	**–**	**146**
2006				
Shareholder's operating profit in the statutory funds				
The shareholder's operating profit after tax in the statutory funds is represented by:				
Investment earnings on shareholder's retained profits and capital	14	4	–	18
Emergence of shareholder's planned profits	29	–	–	29
Experience profit (loss)	3	–	–	3
Reversal of capitalised loss (losses capitalised)	1	–	–	1
Management Services Profit	–	3	–	3
	47	7	–	54
Cumulative losses carried forward at the end of the financial year	1	–	–	1
Life Act policy owners' operating profit in the statutory funds				
The Life Act policy owners' operating profit after tax in the statutory funds is represented by:				
Investment earnings on retained profits	35	–	–	35
Emergence of policy owner planned profits	95	–	–	95
Experience profit (loss)	(4)	–	–	(4)
	126	–	–	126

41. Specific disclosures – Wealth Management (continued)

41(c) Net policy liabilities

Policy liabilities for life insurance contracts are amounts which, when taken together with future premiums and investment earnings, are required to meet the payment of future benefits and expenses and incorporate profit margins on existing business to be released when earned in future periods. Policy liabilities for life investment contracts are determined as the fair value of the financial instrument plus the liability in respect of the management services element.

The effective dates of the actuarial reports on policy liabilities and solvency reserves for Suncorp Life & Superannuation Limited ("SLSL"), Asteron Life Limited (Australia) and Asteron Life Limited (New Zealand) are 30 June 2007. The actuarial report for Suncorp Life & Superannuation Limited was prepared by Mr Rowan Ward, Appointed Actuary BSc FIAA and the actuarial reports for Asteron Life Limited (Australia) and Asteron Life Limited (New Zealand) were prepared by Daniel Longden FIA, FIAA, FNZSA (Appointed Actuary) and Company Actuary for New Zealand. All reports indicated that the Appointed Actuaries are satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in this financial report, the *Life Act* and with the standards of the Life Insurance Actuarial Standards Board ("LIASB").

Policy liabilities in Australia have been calculated in accordance with Actuarial Standard 1.04 "Valuation of Policy Liabilities" issued by the LIASB under Section 114 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, the Actuarial Standards require the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners and premiums are received. For Life Investment contracts, the Actuarial Standards require the policy liabilities to be calculated as the fair value of liabilities in accordance with accounting standards.

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

Business type	Method	Profit carrier
Individual		
Conventional	Projection	Participating business – Bonuses
		Non-participating business – expected claim payments
Investment account [1]	Projection	Interest credits
Accidental cash back [1]	Projection	Expected payments
Allocated pension [1]	Projection	Interest credits
Lump sum risk [1 2]	Projection	Expected claim payments [3]
Disability income	Projection	Expected claim payments
Annuity [1 2]	Projection	Annuity payments
Group		
Investment account	Projection	Interest credits
Lump sum risk [4]	Accumulation	–
Disability income [4]	Accumulation	–
Lump sum risk [5]	Projection	Expected claim payments
Disability income risk [5]	Projection	Expected claim payments

Notes
1 Australia
2 New Zealand
3 Trauma business written by SLSL uses expected premiums
4 SLSL
5 Asteron

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.

41. Specific disclosures – Wealth Management (continued)

41(c) Net policy liabilities (continued)

The following table sets out key assumptions used in the calculation of policy liabilities:

Assumption	Basis of assumption	Significant changes since 2006
Investment earnings	For 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. For SLSL pre-tax rates varied from 5.30% (2006: 4.80%) for the cash sub-funds to 9.20% (2006: 8.60%) for the balanced sub-funds and 11.30% (2006: 10.90%) for the equity sub-funds. For Asteron the investment assumption used for this class of business was 7.69% in Australia and 8.49% in New Zealand. All non-participating business uses an investment earnings and discount rate assumption of the risk free rate. For SLSL this has been determined from the government bond curve and varied (before tax) between 6.2% and 6.5% (2006: 5.8% and 5.9%). For Asteron Australia the risk free rate is derived from the inter-bank swap rates of appropriate duration and these varied (before tax) between 6.87% and 7.07% and for New Zealand the risk free rate is derived from the 10 year inter-bank swap rates and is 7.68%.	SLSL: The risk free rate underlying the investment earnings assumption has increased.
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. Tax deductibility of expenses is allowed for at rates appropriate to the taxation basis of the business.	None.
Inflation	The inflation assumption is reviewed at each valuation. For this valuation 3.0% (2006: 3.0%) per annum was assumed for Australia and 2.5% for New Zealand, taking into account the difference between long-term government bonds and indexed government bonds for Australia.	No changes in approach.
Benefit Indexation	Where the increase in future benefits increases in line with inflation, Asteron has used an assumption of 2.5% and SLSL has used 3.0%.	
Voluntary discontinuance	SLSL: Rates are based upon recent internal investigations and industry experience. Rates vary by product, class of business, policy value and duration in force. Allowance is also made for cash withdrawals. Future long-term rates of discontinuance assumed vary between 2% and 30% (2006: between 2% and 30%). Asteron: Based on the company's recent experience and vary between 6% and 20% for the major classes of business.	SLSL: Assumed long-term discontinuance rates for risk business and allocated pension business reduced to reflect improvements in experience (risk reduced between 1% and 3%pa and allocated pension reduced 3%pa). Asteron: Higher discontinuances are assumed for policyholders aged over 64 and where premium rates have recently been increased.
Surrender values	Surrender values are determined by applying the surrender bases current at the reporting date.	None.
Rates of taxation	The rates of taxation assumed are based on current income tax legislation applicable to the type of product.	None.
Mortality – risk products	SLSL: Mortality rates for risk products have been determined using the standard mortality table (IA95-97) with adjustments for smoking status and also to allow for previous experience. Adjustments for Australia range from 76% (2006: 76%) to 160% (2006: 160%). Table IA95-97 was developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997. Asteron: The proportion of IA95-97 before allowance for smoker/nonsmoker adjustments for Australia is 70% and for New Zealand is 106%.	None.

41. Specific disclosures – Wealth Management (continued)

41(c) Net policy liabilities (continued)

Assumption	Basis of assumption	Significant changes since 2006
Mortality – annuitants	SLSL: Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments, being 55% for males and 65% for females. Tables IM/IF80 were developed by the Institute of Actuaries and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982. Asteron: Uses an adjusted IM/IF80 and for New Zealand annuitant mortality was further adjusted for age related improvement.	None.
Disability – lump sum	Disability rates on lump sum Total and Permanent Disablement policies have been based on industry experience with adjustments to reflect SLSL's and Asteron Life Limited's (Australia and New Zealand) experience. For trauma policies, assumed incidence rates are based on Australian population statistics with adjustments to reflect SLSL's and Asteron's experience.	None.
Disability – income	Disability rates on income policies have been determined using the IAD89-93 table with adjustments to reflect SLSL's and Asteron Life Limited's (Australia and New Zealand) experience. IAD89-93 was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993. For New Zealand, these rates were adjusted by factors dependent on New Zealand industry experience, company experience and nature of benefits.	Adjustments updated to reflect recent experience with a decrease in assumed incidence rates. Recovery rates were increased for certain longer term claims.
Group lump sum (Asteron)	Claim rates are set as a proportion of premiums net of commission and stamp duty.	
Group disability income (Asteron)	Claim rates are set as a proportion of premiums net of commission and stamp duty. Claim termination rates are determined using CIDA85 with adjustments to reflect Asteron's experience.	
Future supportable bonuses and interest credits to participating policies	Future bonus rates and interest credits assumed are those supported by the policy liabilities and the assumed future experience, including allowance for the shareholder's right to participate in distributions. Using these rates the net present value of expected future cash flows equals the value of assets supporting the business. For participating whole of life and endowment business, the Group's policy is to set bonus rates such that, over long periods, the returns to policy owners (as a group, but not necessarily individually) are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. For participating investment account business crediting rates are set such that over long periods policy owners (as a group, but not necessarily individually) receive full investment earnings on their accounts less a deduction of explicit fees and charges. Distributions are split between policy owners and shareholders with the valuation allowing for the shareholder to share in distributions at the maximum allowable rate of 20%. In determining policy owner distributions consideration is given to equity between generations of policy owners and equity between the various classes and sizes of policies in force.	No changes in approach.

41. Specific disclosures – Wealth Management (continued)

41(c) Net policy liabilities (continued)

	Consolidated Life Insurance		
	Current basis [4]		Previous basis [5]
	2007 $m	2006 $m	**2007 $m**
Insurance contract policy liabilities			
Best estimate liability			
Value of future policy benefits[1]	**4,038**	1,956	4,266
Value of future expenses	**1,474**	217	1,468
Value of unrecouped acquisition expenses	**(127)**	(127)	(127)
Balance of future premiums	**(4,859)**	(1,209)	(4,975)
	526	837	632
Value of future profits			
Policy owner bonuses [2]	**1,293**	965	1,231
Shareholder profit margins	**1,019**	310	980
	2,312	1,275	2,211
Total value of declared bonuses [3]	**186**	175	185
Total net policy liabilities	**3,024**	2,287	3,028
Life insurance reinsurance ceded	**255**	61	255
Gross insurance contract liabilities	**3,279**	2,348	3,283
Gross investment contract liabilities at year end	**4,707**	1,558	4,707
Gross policy liabilities	**7,986**	3,906	7,990
Policy liabilities subject to capital guarantee	**1,532**	1,076	1,532

Notes

1 Future policy benefits include bonuses credited to policy owners in prior periods but exclude current period bonuses (as set out in the Income Statement) and future bonuses as set out in (2). Where business is valued by other than projection techniques, future policy benefits includes the account balance.

2 Future bonuses exclude current period bonuses.

3 Current year declared bonuses valued in accordance with the Actuarial Standard.

4 Using the actuarial methods and assumptions relevant at the current reporting date, on current in-force business.

5 Using the actuarial methods and assumptions relevant at the previous reporting date, but on current in-force business.

41. Specific disclosures – Wealth Management (continued)

41(d) Asset restrictions, managed assets, trustee activities and mortgage investments

Restrictions on assets

Investments held in the life insurance statutory funds can only be used within the restrictions imposed under the *Life Act* and the constitution of Suncorp Life & Superannuation Limited and Asteron Life Limited (Australia). 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 policy owners can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements are met.

Participating policyowners and shareholders in Asteron Life Limited (New Zealand) can only receive a distribution when the prudential reserving requirement is met.

Managed assets

Tyndall Investment Management Limited manages nine unit trusts with a combined total of $3,050 million of assets under management. Suncorp Investment Management Limited manages 14 unit trusts with a combined total of $14,400 million of assets under management. Arrangements are in place to ensure asset management activities are managed separately from the life operations of the Group.

Tyndall Investment Management New Zealand Limited (Tyndall) operates as the investment manager for the funds of external clients and the New Zealand subsidiaries, superannuation schemes and unit trusts of Promina Group Limited. Tyndall had funds under management of $3,300 million. The fund management activities of Tyndall are segregated from the settlement, title and custody of its clients' funds.

Trustee activities

The Group has the following trustee activities:

Suncorp Superannuation Pty Ltd, a subsidiary of the Company, acts as licensed trustee in relation to various superannuation policies issued by Suncorp Life & Superannuation Limited.

Asteron Portfolio Services Limited acts as trustee for all the Asteron Limited Group superannuation funds, Connelly Temple Public Superannuation Fund (PSF) and Connelly Temple Pooled Superannuation Trust (PST) and had $880 million under trusteeship at 30 June 2007. Asteron Portfolio Services Limited also acts as a trustee for the Promina Group Staff Superannuation Fund.

The New Zealand Guardian Trust Company Limited (NZGT) is a trustee company constituted under its own Act of Parliament and it is empowered to act as an executor, trustee, agent, manager or custodian as well as a trustee for unit trusts, debt securities and securitisation structures. NZGT had $4,110 million assets under administration and $28,530 million securities supervised.

Asteron Retirement Investment Limited, Asteron Superannuation Services Limited, Asteron Trust Services Limited and Asteron Nominees Limited act as trustees or managers for a number of wholesale, superannuation and investment funds. The assets and liabilities of these trusts and funds are not consolidated in the financial reports as the Group does not control these entities. Assets held under trusteeship as at 30 June 2007 totalled $522 million.

Arrangements are in place to ensure that the activities of each trustee are managed separately from the life operations of the Group.

Mortgage investments

A special purpose Group Investment Fund, NZGT Wholesale Mortgage Fund (GIF5), was set up on 22 July 2004 to enable the New Zealand Financial Services business to invest in mortgages. At 30 June 2007 Asteron and NZGT held 100% of the units in the GIF5 and exercised control over the GIF5 under the provisions of the Trust Deed. As at 30 June 2007 the GIF5 has mortgage loan investments of $74 million. A $68 million drawdown facility was in place at 30 June 2007, of which $54 million was utilized. Receipts from the mortgage portfolio are used to pay the interest and principal commitments due on the cash advance facility and other administration expenses. The cash advance facility is secured over the assets of the GIF5.

NZGT provides administration services to the GIF5. Such services include the sourcing and underwriting of mortgage assets, credit management, customer service and incidental accounting and record keeping. A fee is charged to the GIF5 for these services.

41. Specific disclosures – Wealth Management (continued)

41(e) Disaggregated information by fund

	Suncorp Life & Superannuation Limited Non-investment linked Statutory Fund No. 1 $m	Investment linked Statutory Fund No. 2 $m	Total Statutory Funds $m	Shareholder fund $m
2007				
Investment assets	**3,122**	**1,845**	**4,967**	**13**
Policy liabilities ceded to reinsurers	**78**	**–**	**78**	**–**
Other assets	**279**	**176**	**455**	**88**
Total assets	**3,479**	**2,021**	**5,500**	**101**
Gross policy liabilities	**2,881**	**1,900**	**4,781**	**–**
Policy owner retained profits	**222**	**–**	**222**	**–**
Other liabilities	**246**	**52**	**298**	**32**
Total liabilities	**3,349**	**1,952**	**5,301**	**32**
Net assets	**130**	**69**	**199**	**69**
Share capital	**–**	**–**	**–**	**39**
Capital transfers	**5**	**25**	**30**	**(30)**
Retained profits	**125**	**44**	**169**	**60**
Total equity	**130**	**69**	**199**	**69**
Premium revenue	**168**	**3**	**171**	**–**
Investment revenue	**380**	**287**	**667**	**5**
Claims expense	**(106)**	**–**	**(106)**	**–**
Movement in net insurance contract liabilities	**(284)**	**–**	**(284)**	**–**
Movement in investment contract liabilities	**–**	**(236)**	**(236)**	**–**
Net operating expenses	**(31)**	**(26)**	**(57)**	**(4)**
Profit before tax	**127**	**28**	**155**	**1**
Profit after tax	**62**	**11**	**73**	**1**
Transfer of profits	**(48)**	**–**	**(48)**	**48**
2006				
Investment assets	2,714	1,552	4,266	16
Policy liabilities ceded to reinsurers	61	–	61	–
Other assets	169	105	274	78
Total assets	2,944	1,657	4,601	94
Gross policy liabilities	2,349	1,558	3,907	–
Policy owner retained profits	270	–	270	–
Other liabilities	210	40	250	24
Total liabilities	2,829	1,598	4,427	24
Net assets	115	59	174	70
Share capital	–	–	–	39
Capital transfers	5	25	30	(30)
Retained profits	110	34	144	61
Total equity	115	59	174	70
Premium revenue	134	2	136	–
Investment revenue	345	251	596	8
Claims expense	(78)	–	(78)	–
Movement in net insurance contract liabilities	(289)	–	(289)	–
Movement in investment contract liabilities	–	(208)	(208)	–
Net operating expenses	(10)	(18)	(28)	(2)
Profit before tax	102	27	129	6
Profit after tax	46	8	54	5
Transfer of profits	(45)	–	(45)	45

41. Specific disclosures – Wealth Management (continued)

41(e) Disaggregated information by fund (continued)

	Asteron Life Limited (Australia)						
	Non-investment linked Statutory Fund No. 1 $m	Investment linked Statutory Fund No. 2 $m	Non-Investment linked Statutory Fund No. 3 $m	Investment linked Statutory Fund No. 4 $m	Non-Investment linked Statutory Fund No. 5 $m	Total Statutory Funds $m	Shareholder Fund $m
2007							
Investment assets	684	81	29	2,324	160	3,278	14
Policy liabilities ceded to reinsurers	160	–	–	–	–	160	–
Other assets	90	10	1	94	11	206	1
Total assets	934	91	30	2,418	171	3,644	15
Gross policy liabilities	146	78	27	2,319	149	2,719	–
Policy owner retained profits	–	–	–	–	3	3	–
Other liabilities	123	8	1	60	10	202	1
Total liabilities	269	86	28	2,379	162	2,924	1
Net assets	665	5	2	39	9	720	14
Share capital	–	–	–	–	–	–	296
Capital transfers	268	4	(2)	14	–	284	(285)
Retained profits	397	1	4	25	9	436	3
Total equity	665	5	2	39	9	720	14
Premium revenue	93	–	–	–	–	93	–
Investment revenue	17	2	–	68	3	90	1
Claims expense	(44)	–	–	–	(3)	(47)	–
Movement in net insurance contract liabilities	3	–	–	–	2	5	–
Movement in investment contract liabilities	(2)	(1)	–	(54)	–	(57)	–
Net operating expenses	(37)	(1)	–	(9)	–	(47)	–
Profit before tax	23	1	–	12	1	37	1
Profit after tax	18	–	(1)	3	–	20	–
Transfer of profits	–	–	–	–	–	–	–

41. Specific disclosures – Wealth Management (continued)

41(e) Disaggregated information by fund (continued)

	Asteron Life Limited (New Zealand) Investment linked $m	Asteron Life Limited (New Zealand) Shareholder and other risk business $m
2007		
Investment assets	**296**	**528**
Policy liabilities ceded to reinsurers	**–**	**17**
Other assets	**24**	**24**
Total assets	**320**	**569**
Gross policy liabilities	**285**	**200**
Policy owner retained profits	**–**	**16**
Other liabilities	**26**	**128**
Total liabilities	**311**	**344**
Net assets	**9**	**225**
Share capital	**–**	**157**
Capital transfers	**–**	**–**
Minority interest	**–**	**3**
Retained profits	**9**	**65**
Total equity	**9**	**225**
Premium revenue	**–**	**25**
Investment revenue	**7**	**8**
Claims expense	**–**	**(15)**
Movement in net insurance contract liabilities	**(6)**	**10**
Movement in investment contract liabilities	**(1)**	**(4)**
Net operating expenses	**7**	**(34)**
Profit before tax	**(1)**	**(1)**
Profit after tax	**(1)**	**2**
Transfer of profits	**–**	**–**

41. Specific disclosures – Wealth Management (continued)

41(f) Solvency requirements of the Life Insurance statutory funds

Distribution of the retained profits of the statutory funds is limited by the prudential capital requirements of Part 5 of the *Life Act*, the detailed provisions of which are specified by Actuarial Standards. The Solvency Standard prescribes a minimum level of assets, known as the solvency requirement, for each statutory fund in the life businesses.

For Australia, the methodology and bases for determining solvency requirements are in accordance with Actuarial Standards AS2.04 Solvency Standard, as required under the Life Insurance Act.

For New Zealand, FRS-34 requires companies to disclose the amount of equity retained as solvency reserves. This amount has been calculated as at 30 June 2007 in accordance with the Life Insurance note issued by New Zealand Society of Actuaries.

The solvency requirements, and the ratios in respect of those requirements, are as follows:

	Suncorp Life & Superannuation Limited 2007 $m	Suncorp Life & Superannuation Limited 2006 $m	Asteron Life Limited (Australia) 2007 $m	Asteron Life Limited (New Zealand) 2007 $m
Solvency requirement				
Minimum termination value	**4,220**	3,454	**2,974**	**572**
Other liabilities	**298**	250	**203**	**96**
Solvency reserve	**472**	321	**176**	**84**
Solvency requirement	**4,990**	4,025	**3,353**	**752**
Assets available for solvency reserve				
Excess of gross policy liabilities (includes policy owner bonuses) over minimum termination value	**561**	392	**(414)**	**(105)**
Net assets	**199**	174	**721**	**230**
Liability for policy owner retained profits at the end of financial year	**222**	270	**2**	**17**
	982	836	**309**	**142**
Solvency reserve	**10.5%**	8.7%	**5.6%**	**12.6%**
Coverage of solvency reserve (times)	**2.1**	2.6	**1.8**	**1.7**

The minimum termination value is determined in accordance with the Solvency Standard and is the base figure upon which reserves against liability and asset risks are layered in determining the solvency requirement. The minimum termination value represents the minimum obligation of the Group to policy owners at reporting date.

41. Specific disclosures – Wealth Management (continued)

41(g) Wealth Management risk management

The life companies have an approved Risk Management Statement which has been accepted by the Australian Prudential Regulation Authority ("APRA") as appropriate guidelines for the investment of the entities' funds including the use of derivatives. More detailed discussion on this is contained in note 43.

Suncorp Life and Superannuation Limited has a shareholder and two statutory funds, being a Capital Guaranteed Fund and an Investment Linked Fund. Within the Capital Guaranteed Fund there are five sub-funds: Life Capital Guaranteed Funds No's 1 and 4, and Superannuation Capital Guaranteed No's 1, 4 and 5. Within the Investment Linked Fund there are thirteen sub-funds: the Life Capital Stable Fund, the Balanced Life Fund, the Superannuation Stable Fund, the Balanced Superannuation Fund, the MS Cash Pool Fund, the MS Balanced Fund, the MS Capital Stable Fund, the MS High Equity Fund, the Suncorp Metway Australian Equities Superannuation Fund, the Suncorp Metway International Equities Superannuation Fund, the Suncorp Imputation Fund, the Suncorp Metway Bonds Fund and the Suncorp Metway Property Fund. Each of these sub-funds has an investment mandate.

Asteron Life Limited (Australia) has five statutory funds and a shareholder fund. Statutory Funds No. 1, 3 and 5 each have two sub-funds, one being an ordinary and the other being a superannuation sub-fund. Statutory Funds No. 1 and 3 are non-linked and non-participating while Statutory Fund No. 5 is non-linked and participating. Statutory Fund No. 2 is a non-participating linked ordinary fund and Statutory Fund No. 4 is a non-participating linked superannuation fund. Major product lines for Statutory Fund No.1 are risk, annuities, traditional and fixed rate investment, while Statutory Fund No. 3 and 5 are traditional and investment account type funds.

Asteron Life Limited (New Zealand) has two funds – Life Fund and Shareholders' Fund. Major product lines for the Life Fund are risk, annuities, traditional, participating, fixed rate investment and investment linked business. Shareholder Fund covers all disability.

Insurance risk

Insurance risk is the risk that inadequate or inappropriate product design, pricing, underwriting, reserving, claims management or reinsurance management will expose an insurer to financial loss and consequent inability to meet its liabilities.

Risk management objectives and policies for mitigating insurance risk

The Group's objective is to satisfactorily manage these risks in line with the Group's Risk Management Statements that is approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Group depending on the nature of the risk. The Group's exposure to all material risks is overseen by the Board Risk Committee.

In an effort to protect and improve shareholder value, the Group manages its exposure to risks so that it can react in a timely manner to changes in financial markets, insurance cycles, and economic and political environments. Risk exposures are managed using various analysis and valuation techniques, including stochastic modelling, to calculate the capital required under adverse risk scenarios, along with prudent underwriting and diversified investing.

Insurance risks are controlled through adherence to underwriting procedures, adequate premium rates and sufficient reinsurance arrangements. In relation to premium rates and reinsurance arrangements, the Group receives advice from the Appointed Actuary, in accordance with section 116 of the *Life Act*. Controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

The financial and operating results, mortality and morbidity experience, claims frequency, persistency and expenses are monitored monthly against budget projections derived from the actuarial projection models. In addition, detailed annual investigations are performed into the mortality, morbidity and persistency experience of the business.

Capital

The Group's insurance operations are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the type, quality and concentration of investments held. In addition to the tests required by regulatory standards, sensitivity tests are performed annually (and reported in the Financial Condition Report), to ascertain the ability of the Statutory Funds to withstand various adverse 'asset shock' scenarios. The Group monitors its capital adequacy position on a monthly basis, in relation to both statutory requirements (as set out under actuarial standards) and its own internal target policy.

Underwriting procedures

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies meeting certain criteria are underwritten on the merits of the employee group as a whole.

Terms and conditions of insurance 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.

41. Specific disclosures – Wealth Management (continued)

41(g) Wealth Management risk management (continued)

Insurance risk (continued)

The table provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance and investment contracts issued by the 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)	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 a 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 policyholder 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 policyholders and shareholders in accordance with the *Life Act*. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders 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 policyholders and shareholders in accordance with the *Life Act*. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders 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. The policyholder investment account is the value of the units. Fees are deducted from this account.	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.

41. Specific disclosures – Wealth Management (continued)

41(g) Wealth Management risk management (continued)

Insurance risk (continued)

Claims management

Claims are managed through dedicated claims management teams, with formal claims acceptance limits and appropriate training and development of staff to ensure payment of all genuine claims. Claims experience is assessed regularly and appropriate actuarial reserves are established to reflect up-to-date experience and any anticipated future events. This includes reserves for claims incurred but not yet reported.

Concentrations of insurance risk

The Group writes a mixture of individual and group insurance business providing mortality, morbidity and annuity benefit payments. The mix of business is monitored and managed to avoid inappropriate concentrations of risk.

Exposure to risk of large claims for individual lives is managed through the use of surplus reinsurance arrangements whereby the Group's maximum exposure to any individual life is capped. The Group cedes to specialist reinsurance companies a proportion of its portfolio or certain types of insurance risk. This serves primarily to reduce the net liability on large risks (related to either an individual or group exposure), obtain greater diversification of insurance risks and provide protection against large losses. The reinsurers have strong Standard & Poor's credit ratings from AA- to AAA. The Group reviews its reinsurance management strategy annually, with the strategy approved by the Board Risk Committee.

Concentrations of risk by product type are managed through monitoring of the Group's in-force life insurance business and the mix of new business written each year.

The Group's group life portfolio includes an Industry fund that offers death and TPD protection to employers, some with large workforces. Although a 50% quota share arrangement (post 30 June 2007 the reinsured proportion will reduce to 33%) is in place for this policy, the concentration of such workforces in single locations remains a factor that exposes SLSL to a higher risk of loss in the event of an accident affecting the location where the insured employees work. The Group examines its exposure to such employers on a case by case basis to ascertain the need for 'catastrophe' excess of loss reinsurance.

Credit risk

Credit risk arises as a result of placement of reinsurance programs with counterparties and investments in financial instruments. The Board Risk Committee monitors the effectiveness of credit risk management in relation to Life Insurance activities, including the investments and insurance portfolios, and reviews exposure to reinsurers. The Life Insurance entities have no specific concentration of credit risk with a single counterparty arising from the use of financial instruments in managing the investment portfolio other than that normally arising through dealings on recognised exchanges and off exchange dealings (over the counter contracts). The counterparties to over the counter contracts are limited to companies with strong credit ratings from a recognised credit rating agency. These counterparties are normally banks operating in Australia.

Credit risk from the use of financial instruments in investment management is controlled both by credit management (credit rating and credit limit controls), and by counterparty diversification policies to limit exposure to any one counterparty as a proportion of the investment portfolio.

Market risk

Market risk in the Group's Wealth Management activities is the risk of loss of current and future earnings from adverse moves in interest rates, foreign exchange rates, equity prices, property prices and prices of other financial contracts including derivatives.

Asset and liability management techniques

Assets are allocated to various asset classes in accordance with explicit risk and return objectives. Sensitivity analyses are primarily used for participating products and simulate the impact of certain market fluctuation scenarios on future cash flows, fair values or forecasted earnings. For non-discretionary participatory insurance products, such as unit-linked products, the interest and market risks are passed on to the policyholder.

Management of market risk is generally less critical for short-term insurance products, as the amounts and timing of claims do not vary significantly with interest rates or other market changes that affect the underlying investments.

The premiums received and the investment returns (net investment income and realised gains and losses) provide substantial liquidity to meet claims payments and associated expenses as they arise. Consequently, there is greater flexibility in investment strategies while managing investments to ensure sufficient liquidity to meet the claims as they become due, based on actuarial assessments.

Interest rate risk

Interest rate risk arises from the investments in interest bearing securities. Any change in fair value of investments in interest bearing securities are immediately reflected in the Income Statements in accordance with the accounting policies discussed in note 3(h). The repricing periods attributable to the Group are set out in note 41(h).

The asset liability matching process also matches the currency of related assets and liabilities. The Group's assets and liabilities are affected by the different interest rates of the countries in which the Group operates – Australia and New Zealand. Those assets which are interest bearing and not 100% matched are therefore subject to the interest rate fluctuations for a number of different currencies.

41. Specific disclosures – Wealth Management (continued)

41(g) Wealth Management risk management (continued)

Market risk (continued)

Foreign exchange risk

The statutory funds of the Group invest in overseas assets. These assets back the liabilities within the funds. In the Investment Linked funds any investment returns, whether positive or negative, are passed on to the policyholders. In the Capital Guaranteed Fund, capital and declared interest are guaranteed. The Fund maintains reserves in accordance with the standards of the LIASB 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. A controlled trust of SLSL, Suncorp Investment Management Global Macro Trust enters into forward foreign exchange and futures contracts to provide capital appreciation by actively timing global currency, bond and equity markets using quantitative models to generate the trade positions. The terms and conditions of the forward foreign exchange contracts do not exceed one year.

Other market risks

In addition to cash and interest bearing securities, the investment portfolios contain exposures to equity and property markets. The investment mandates while providing higher returns must also consider the volatility of investment returns and the impact of volatility on both the capital adequacy and profitability of the business. To do this, the investment mandates were developed using a value at risk framework. An acceptable level of risk was agreed and an investment strategy was developed where the likely returns would fall within the agreed risk limits with a high degree of confidence. The performance of the investment mandates are regularly reviewed to ensure the risks are within the predicted limits.

In accordance with the accounting policy discussed in note 3(h), these investments are measured at fair value at each balance date and changes in fair value are immediately reflected in the Income Statements. These principles also apply to investments through unitised vehicles.

Any overall downturn in the equities markets may impact on the future results of the Group. The impact of any significant movement is managed by ensuring that the investment portfolio (whether direct or through unitised vehicles) consists of a diverse holding of Australian and overseas companies and through the limited use of derivative financial instruments, as discussed in note 43.

Balance sheet and liquidity risk

Liquidity risk is the risk that payment of obligations may not be able to be met as they fall due. Balance Sheet risk is the risk to earnings and capital arising from mismatches between assets and liabilities with varying maturity and repricing profiles, and from mismatches in term.

The ability to make claims payments in a timely manner is critical to the business of life insurance. The investment portfolio mandates ensure that sufficient cash deposits are available to meet day-to-day obligations.

Solvency margin requirements established by APRA are in place to reinforce safeguards for policyholders' interests, which are primarily the ability to meet future claims payments to policyholders. The solvency margins measure the excess of the value of the insurers' assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the year, and takes into account the specific risks faced by the Group.

The Group maintains a level of capital adequacy in accordance with Actuarial Standards issued by the LIASB.

41. Specific disclosures – Wealth Management (continued)

41(h) Interest rate risk

	Floating interest rate $m	1 year or less $m	Fixed interest maturing in: 1 to 5 years $m	Over 5 years $m	Total carrying value $m	Effective interest rate %
2007						
Financial assets						
Cash	**549**	**–**	**–**	**–**	**549**	**6.13%**
Debentures and corporate bonds	**145**	**1,069**	**492**	**152**	**1,858**	**6.48%**
Government and semi government securities	**–**	**8**	**91**	**161**	**260**	**6.42%**
Discounted securities	**20**	**538**	**–**	**–**	**558**	**6.68%**
Secured loans	**23**	**–**	**–**	**–**	**23**	**8.63%**
Other	**22**	**50**	**122**	**82**	**276**	**4.35%**
	759	**1,665**	**705**	**395**	**3,524**	
Financial liabilities						
Interest bearing liabilities	**54**	**–**	**–**	**–**	**54**	**8.49%**
	54	**–**	**–**	**–**	**54**	
Net financial assets	**705**	**1,665**	**705**	**395**	**3,470**	

	Floating interest rate $m	1 year or less $m	Fixed interest maturing in: 1 to 5 years $m	Over 5 years $m	Total carrying value $m	Effective interest rate %
2006						
Financial assets						
Cash	206	–	–	–	206	4.32%
Debentures and corporate bonds	–	829	402	78	1,309	6.18%
Discounted securities	–	289	–	–	289	5.80%
Secured loans	13	–	–	–	13	8.30%
	219	1,118	402	78	1,817	
Financial liabilities						
Interest bearing liabilities	–	–	–	–	–	
	–	–	–	–	–	
Net financial assets	219	1,118	402	78	1,817	

41. Specific disclosures – Wealth Management (continued)

41(i) Critical accounting estimates and judgements

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Insurance contract liabilities

Policy liabilities for Life Insurance contracts are computed 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 businesses written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- the cost of providing the benefits and administering these insurance contracts; and
- discontinuance experience, which affects the Life Companies' ability to recover the cost of acquiring new business over the lives of the contracts.

In addition, factors such as regulation, competition, interest rates, taxes, security market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Life Companies share experience on mortality, morbidity, persistency and investment results with its customers, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 41(j).

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the same methods as for insurance contract liabilities. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Life Companies may not receive amounts due to it and these amounts can be reliably measured.

Investment contracts – deferred acquisition costs and deferred revenue

The assessment of recoverability and amortisation of deferred acquisition costs is an inherently uncertain process. There is no reliable measure of the future economic benefits that will arise from the acquisition costs incurred. This is largely due to the uncertainty surrounding continuance or surrender of certain policies. The acquisition costs are capitalised and separately disclosed in the Balance Sheet and amortised over the period to which the costs provide income.

The amortisation of deferred revenue is an inherently uncertain process, involving assumptions about factors related to the period a policy will be in force. This is largely due to uncertainty surrounding continuance or surrender of particular policies. The deferred revenue is capitalised and separately disclosed as another liability in the Balance Sheet and amortised over the period to which the policy is expected to provide income.

41(j) Actuarial assumptions and methods – policy liabilities

For general assumptions relating to life insurance gross policy liabilities, refer note 41(c).

Sensitivity analysis

The 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
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 claim cost and therefore reducing profit and shareholders 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 policyholders becoming ill and the duration which they remain ill. 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.

41. Specific disclosures – Wealth Management (continued)

41(j) Actuarial assumptions and methods – policy liabilities (continued)

Sensitivity analysis (continued)

For Life Insurance contracts which are accounted for under AS 1.04, amounts of liabilities, income or expense recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins.

The table below illustrates how changes in key assumptions would impact the current period reported profit and policy liabilities and equity at 30 June 2007 of the Group.

Variable	Change [1]	Change in insurance contract liability (net) $m	Change in insurance contract liability (gross) $m	Profit (loss) after tax (net) $m	Profit (loss) after tax (gross) $m
Maintenance expense	+ 10% increase	**6**	**2**	**(6)**	**(2)**
Mortality and lump sum morbidity	+ 10% increase	**1**	**1**	**(1)**	**(1)**
Morbidity – disability income	+ 10% increase in incidence and decrease in recovery rates	**40**	**42**	**(40)**	**(42)**
Discontinuance rates	+ 10% increase	**4**	**–**	**(4)**	**–**

Notes

1 Change is an absolute, rather than relative, change.
2 Change in liability and profit / (loss) are shown net and gross of reinsurance.

The table below illustrates the effects of changes in actuarial assumptions from 30 June 2006 to 30 June 2007.

Assumption category	Effect on future profit margins (shareholder) increase/ (decrease) $m	Effect on policy liabilities increase/ (decrease) $m
Discount rates (risk business)	**–**	**16**
Discount rates (participating business)	**10**	**–**
Mortality and morbidity	**5**	**(1)**
Lapse and surrender rates	**34**	**–**
Maintenance expenses	**2**	**(1)**
Other	**6**	**–**

Notes

1 Effects for risk business is shown gross of tax.

We note that part of the effect of the change in variables above may have been absorbed into profit margins implicit within policy liabilities and is therefore not apparent from the table above.

42. Financing arrangements

	CONSOLIDATED			
	2007 available $m	**2007 unused $m**	2006 available $m	2006 unused $m
Unrestricted access was available at balance date to the following:				
Group overdraft limit	**35**	**35**	30	30
The Group had the following debt programs[1] outstanding at year end:				
USD $15 billion program	**17,639**	**10,193**	20,194	13,701

Notes

1 The Group also has access to an unlimited AUD domestic program, and a $62 million intraday credit accommodation facility.

43. Derivative financial instruments

A derivative financial instrument is a financial instrument that provides the holder with the ability to participate in some or all of the price changes of a referenced financial instrument, commodity, index of prices, or the price of any specific item. It usually does not require the holder to own or deliver the referenced item. Derivatives enable holders to modify or eliminate risks by transferring them to other parties willing to assume those risks. As at 30 June 2007 there was no significant counterparty exposure to any one single entity, other than normal clearing house exposures associated with dealings through recognised exchanges.

Derivative financial instruments are used by the Group to manage interest rate, foreign exchange and equity price risk arising from various banking and insurance activities. They are also used to a limited degree within the insurance investment portfolios where it is more efficient to use derivatives rather than physical securities in managing investment portfolios.

The "face value" is the notional or contractual amount of the derivatives. This amount acts as reference value upon which interest payments and net settlements can be calculated and on which revaluation is based.

The "credit equivalent" is a number calculated using a standard APRA formula and is disclosed for each product class. This amount is a measure of the on-Balance Sheet loan equivalent of the derivative contracts, which includes a specified percentage of the face value of each contract plus the market value of all contracts with an unrealised gain at balance date.

The "fair value" of the derivative contract represents the net present value of the cash inflows and outflows required to extinguish the rights and obligations arising from the derivative in an orderly market as at reporting date. Fair value does not indicate future gains or losses, but rather the unrealised gains and losses from marking-to-market all derivatives at a particular point in time. The fair value of derivative contracts vary over time depending on movements in interest and exchange rates and hedging strategies used.

43. Derivative financial instruments (continued)

(a) Banking activities

The Banking entity uses derivative financial instruments both for non-trading activities (Balance Sheet management) and trading activities.

Non-trading activities

Derivative financial instruments are primarily used for the purpose of managing existing or anticipated interest rate risk from non-trading activities. Non-traded interest rate risk arises from the structure and characteristics of the Banking assets and liabilities and in the mismatch in their repricing dates. The principal objective of non-traded interest rate risk management is to minimise the fluctuations in value and net interest income over time, providing secure and sustainable net interest income arising in the long term.

The Banking entity also uses derivative financial instruments for the purpose of hedging non-traded foreign exchange risk. Foreign exchange derivatives are used to hedge foreign currency borrowing, lending and other cash flows.

The risk management framework in relation to non-traded market risk is detailed in note 39(g).

Trading activities

The Banking entity maintains trading positions in a variety of interest rate and foreign exchange derivative financial instruments. The principal objective of the trading activities is to generate income by providing a service to customers, acting as a market maker to the entity's own internal customers and through disciplined trading.

The risk management framework in relation to traded market risk is detailed in note 39(g).

	Consolidated Banking 2007		Consolidated Banking 2006	
	Face value $m	**Fair value $m**	Face value $m	Fair value $m
2007				
Exchange rate related contracts [1]				
Forward foreign exchange contracts	**9,688**	**(63)**	6,864	40
Cross currency swaps	**7,498**	**(581)**	6,148	(1)
Currency options	**11**	**–**	138	–
	17,197	**(644)**	13,150	39
Interest rate related contracts [2]				
Forward rate agreements	**1,100**	**–**	60	–
Interest rate swaps	**31,124**	**139**	20,465	80
Interest rate futures	**1,586**	**–**	105	–
Interest rate options	**504**	**–**	349	–
	34,314	**139**	20,979	80
Total derivative exposures [3]	**51,511**	**(505)**	34,129	119

Notes

1 The credit equivalent of the exchange rate related contracts is $362 million (2006: $339 million).
2 The credit equivalent of the interest rate related contracts is $356 million (2006: $155 million).
3 The credit equivalent of the total derivative exposures is $719 million (2006: $494 million).

43. Derivative financial instruments (continued)

(b) Insurance activities

The use of derivatives is consistent with the objectives of the overall investment strategies of the investment portfolios, and one of the means by which these strategies are implemented. Derivatives will only be used for the reasons of efficiency, arbitrage and risk reduction. The Risk Management Statements, approved by the Board, establish the basis on which derivative financial instruments may be used within the investment portfolios. The preparation and enforcement of the statements is a critical requirement for licensed insurers. The Risk Management Statements form the basis of the discussion in this note on derivative financial instruments. The Risk Management Statements and investment mandates strictly prohibit the use of derivatives for speculative purposes or 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.

Exposure limits have been established with respect to the various asset classes for each client portfolio. Within each asset class, derivative exposure limits are identified in the Risk Management Statements and limits have been established on daily transaction levels. For over the counter (OTC) derivatives authorised counterparties must have a minimum Standard and Poor's rating of "A" or the equivalent credit rating by another recognised credit rating agency.

The investment manager has an independent Risk Manager responsible for monitoring these positions to ensure they do not exceed the authorities established in the investment mandate. Regular monitoring and review of controls relating to these activities is the responsibility of the Board Risk sub-committee and the Group Compliance & Assurance unit.

The General Insurance business has forward foreign exchange contracts in relation to the overseas liabilities portfolio. Under the contracts, the Group agrees to exchange specified amounts of United States dollars at an agreed future date, at a specified exchange rate.

The use of derivative financial instruments to mitigate market risk, interest rate risk and currency risk includes the use of exchange traded bill and bond futures, equity index futures, over-the-counter forward foreign exchange contracts and interest rate and equity options.

Derivative financial instruments are investment backing insurance liabilities and are measured at fair value. Changes in fair value are reflected daily in the Income Statements. The fair values of the derivative financial instruments at balance date are as follows:

	Consolidated Insurance			
	Face value 2007 $m	**Fair value 2007 $m**	Face value 2006 $m	Fair value 2006 $m
General Insurance				
Forward exchange contracts	**57**	**(1)**	29	–
Interest rate futures	**1,781**	**(1)**	1,058	(2)
Interest rate options	**(24)**	**–**	–	–
Interest rate swaps	**1,848**	**(12)**	–	–
Equity futures	**516**	**9**	475	(16)
Credit default swaps	**106**	**–**	20	–
	4,284	**(5)**	1,582	(18)
Life Insurance				
Forward exchange contracts	**475**	**3**	179	–
Interest rate futures	**2,024**	**(1)**	1,651	(1)
Interest rate options	**(7)**	**–**	–	–
Interest rate swaps	**(1)**	**(1)**	–	–
Equity futures	**1,339**	**15**	1,344	(19)
	3,830	**16**	3,174	(20)

44. Financial instruments

Refer note 38 for discussion on the exposure to risks that arise in the normal course of the Group's business. Refer note 43 for specific discussion on derivative financial instruments.

(a) Fair values

These amounts represent estimates of fair values at a point in time and require assumptions and matters of judgement regarding economic conditions, loss experience, risk characteristics associated with particular financial instruments and other factors. Therefore, they cannot be determined with precision and changes in the assumptions could have a material impact on the amount estimated. Fair values of financial instruments at balance date are as follows:

	CONSOLIDATED				COMPANY			
	Carrying value 2007 $m	**Fair value 2007 $m**	Carrying value 2006 $m	Fair value 2006 $m	**Carrying value 2007 $m**	**Fair value 2007 $m**	Carrying value 2006 $m	Fair value 2006 $m
Financial assets								
Cash and liquid assets	**1,093**	**1,093**	538	489	**378**	**378**	217	217
Receivables due from other banks	**42**	**42**	26	26	**42**	**42**	26	26
Trading securities	**4,291**	**4,291**	3,773	3,773	**4,291**	**4,291**	3,773	3,773
Investment securities	**20,920**	**20,920**	11,011	10,926	**9,688**	**9,688**	2,095	2,095
Loans, advances and other receivables	**47,013**	**46,919**	39,220	39,609	**42,568**	**42,479**	36,421	36,396
Bank acceptances of customers	**886**	**886**	316	316	**886**	**886**	316	316
Reinsurance and other recoveries	**1,404**	**1,404**	–	–	**–**	**–**	–	–
Deferred insurance assets	**446**	**446**	–	–	**–**	**–**	–	–
Due from subsidiaries	**–**	**–**	–	–	**4,435**	**4,435**	3,955	3,956
Other financial assets	**426**	**426**	600	600	**195**	**195**	200	200
Financial liabilities								
Deposits and short term borrowings	**30,916**	**30,918**	27,683	27,683	**30,916**	**30,918**	27,683	27,683
Payables due to other banks	**25**	**25**	120	120	**25**	**25**	120	120
Bank acceptances	**886**	**886**	316	316	**886**	**886**	316	316
Payables	**3,191**	**3,191**	778	781	**1,146**	**1,146**	403	403
Employee benefit obligations	**236**	**236**	–	–	**–**	**–**	–	–
Due to subsidiaries	**–**	**–**	–	–	**10,249**	**10,249**	7,534	7,534
Securitisation liabilities	**7,948**	**7,948**	5,700	5,700	**–**	**–**	–	–
Bonds, notes and long term borrowings	**6,338**	**6,333**	5,504	5,551	**6,284**	**6,279**	5,504	5,495
Subordinated notes	**2,202**	**2,202**	1,466	1,466	**1,198**	**1,198**	1,271	1,271
Preference shares	**144**	**144**	250	250	**144**	**144**	250	250

The fair value of derivative financial instruments can be found in note 43.

The estimated fair values disclosed do not include the value of assets and liabilities that are not considered financial instruments. In addition, the value of long-term relationships with depositors and other customers are not reflected. The value of these items is significant, and the aggregate net fair value amount should in no way be construed as representative of the underlying value of the Group.

44. Financial instruments (continued)

(a) Fair values (continued)

The following methodologies and assumptions were used to determine the net fair value estimates:

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 net fair value. Trading and investment securities are carried at market value which equates to fair value.

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

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

Financial liabilities

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

The fair value of bonds, notes and long term borrowings and subordinated notes, 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 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 the Banking entity for similar liabilities with similar remaining maturities.

Contingent financial liabilities and credit commitments

The Group has potential financial liabilities that may arise from certain contingencies disclosed in note 47. As explained in that note, no material losses are anticipated in respect of any of those contingencies.

Derivative financial instruments

Fair value of asset and liability hedges is based on quoted market prices, or broker and dealer price quotations. The net fair value of trading and investment derivative contracts was obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

(b) Hedging

Banking activities

Hedging of fluctuations in interest rates

The Bank seeks to minimise volatility in its 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.

Interest rate swaps designated as hedges are classified as either cash flow hedges or fair value hedges and are measured at fair value in the Balance Sheet. At balance date, the Bank had two swaps designated as a fair value hedge of a fixed rate subordinated debt issue. All other interest rate swaps designated as hedges were 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

The Bank 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.

The Bank hedges its offshore debt issues using cross currency interest rate swaps and foreign exchange swaps. In respect of other monetary assets and liabilities held in currencies other than AUD, the Bank 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 Bank are designated as hedges using the split approach. Under this approach the benchmark rate of the hedge is accounted for as a fair value hedge and the margin as a cash flow hedge.

The Bank has elected to fair value its Euro Commercial Paper portfolio through the Income Statement 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 in the Income Statement. 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 2007 was negative $68 million (30 June 2006: $15 million).

44. Financial instruments (continued)

(b) Hedging (continued)

Banking activities (continued)

	Consolidated Banking 2007 Fair Value Hedges $m	Consolidated Banking 2007 Cash Flow Hedges $m	Consolidated Banking 2006 Fair Value Hedges $m	Consolidated Banking 2006 Cash Flow Hedges $m
Hedging of fluctuations in interest rates				
Notional value of interest rate swaps designated as hedges	**200**	**12,573**	200	12,311
Fair value:				
net receive interest rate swaps	**–**	**153**	–	(10)
net pay interest rate swaps	**(6)**	**(11)**	(1)	82
	(6)	**142**	(1)	72

	Split Approach 2007 $m	Split Approach 2006 $m
Hedging of fluctuations in foreign exchange rates		
Notional value of cross currency swaps designated as hedges	**7,498**	6,148
Fair value:		
net receive cross currency swaps	**–**	135
net pay cross currency swaps	**(577)**	(136)
	(577)	(1)
Cashflow hedges – amounts recognised in equity		
Balance at the beginning of the financial year	**(14)**	22
Amount removed from equity and included in profit or loss for the year		
cash flow interest rate swap hedges	**8**	2
split approach across cross currency swap hedges	**(2)**	(1)
Cumulative gains and losses deferred to equity for current hedges		
cash flow interest rate swap hedges	**(71)**	(45)
split approach across cross currency swap hedges	**(7)**	2
Income tax impact on cash flow hedges	**22**	6
Balance at the end of the financial year included in equity	**(64)**	(14)

Insurance activities

Hedging of fluctuations in interest rates

Interest rate derivatives are used to hedge interest rate risks inherent in the business.

Interest rate swaps designated as hedges are classified as either cash flow hedges or fair value hedges and measured at fair value in the Balance Sheet. At balance date the General Insurance entities have interest rate swaps designated as a hedge and classified as fair value hedges of fixed rate subordinated debt issues. All other interest rate derivatives are accounted for as fair value through the Income Statement.

44. Financial instruments (continued)

(b) Hedging (continued)

Insurance activities (continued)

Hedging of fluctuations in interest rates (continued)

	Consolidated Insurance 2007		Consolidated Insurance 2006	
	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	**235**	**–**	135	–
Fair value:				
net receive interest rate swaps	**14**	**–**	–	–
net pay interest rate swaps	**–**	**–**	(2)	–
	14	**–**	(2)	–

45. Fiduciary activities

The Group conducts investment management and other fiduciary activities as trustee, custodian or manager for various investment funds and trusts, Suncorp-Metway Ltd 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 Group and are not included in the consolidated financial reports.

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 reports. At 30 June 2007, the value of assets under management was $38,285 million (2006: $1,744 million).

46. Commitments

In the ordinary course of business, various types of contracts are entered into relating to the financing needs of customers, including commitments to extend credit, letters of credit and financial guarantees. The Group uses the same credit policies and assessment criteria in making these commitments and conditional obligations as it does for on-Balance Sheet instruments.

(a) Credit commitments – Banking activities

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		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Notional amounts				
Guarantees entered into in the normal course of business	**314**	363	**314**	363
Commitments to provide loans and advances	**7,440**	5,876	**7,440**	5,876
	7,754	6,239	**7,754**	6,239
Credit equivalent amounts				
Guarantees entered into in the normal course of business	**185**	200	**185**	200
Commitments to provide loans and advances	**1,561**	1,249	**1,561**	1,249
	1,746	1,449	**1,746**	1,449

46. Commitments (continued)

(b) Operating lease commitments

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Aggregate future operating lease rentals contracted for but not provided in the financial reports are payable as follows:				
Less than one year	**116**	54	**58**	45
Between one and five years	**309**	118	**149**	115
More than five years	**172**	46	**122**	46
	597	218	**329**	206
Representing:				
Cancellable operating leases	**1**	–	**–**	–
Non-cancellable operating leases	**596**	218	**329**	206
	597	218	**329**	206

The Group leases property under operating leases expiring from 1-12 years. Leases generally provide the 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.

(c) Finance lease receivables

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Gross investment in finance lease receivables:				
Less than one year	**143**	146	**20**	38
Between one and five years	**278**	278	**2**	20
More than five years	**8**	11	**–**	–
	429	435	**22**	58
Unearned future income on finance leases	**(54)**	(54)	**–**	(3)
Net investment in finance lease receivables	**375**	381	**22**	55

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Net investment in finance lease receivables:				
Less than one year	**138**	141	**20**	37
Between one and five years	**232**	233	**2**	18
More than five years	**5**	7	**–**	–
	375	381	**22**	55

(d) Expenditure commitments

	CONSOLIDATED 2007 $m	CONSOLIDATED 2006 $m	COMPANY 2007 $m	COMPANY 2006 $m
Expenditure for the acquisition of plant and equipment contracted for but not provided in the financial reports is payable as follows:				
Less than one year	**14**	20	**2**	1
	14	20	**2**	1

47. Contingent assets and liabilities

(a) Contingent liabilities

There are outstanding court proceedings, potential fines, claims and possible claims against the Group, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The 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 reports are as follows:

- The Group has given guarantees and undertakings in the ordinary course of business in respect to credit facilities and rental obligations. Note 46 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 Group enters into various types of investment contracts, including derivative positions, 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.
- In respect of the sale of property investments, undertakings have been provided by the Group to purchasers in relation to costs which may arise due to conditions existing prior to sale for which the purchasers were not notified. The amounts attributable cannot be quantified and it is considered unlikely that any material liability will arise in respect of these items. In some cases, counter claims would be available against design engineers and other contractors to recover any liability incurred by the Group.

(b) Contingent assets

There are claims and possible claims made by the Group against external parties, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The 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 probable that future economic benefits will eventuate or the amount is not capable of reliable measurement.

48. Consolidated entities

(a) Ultimate parent entity

The ultimate parent entity in the wholly owned group is Suncorp-Metway Ltd.

(b) Subsidiaries of Suncorp-Metway Ltd

Controlled entities	Class of shares	Country of incorporation	Equity holding 2007 %	Equity holding 2006 %
Australian Banking entities				
Series 1999-1 APOLLO Trust	Units	Australia	**100**	100
APOLLO Series 2002-1 Trust	Units	Australia	**100**	100
APOLLO Series 2002-2 Trust	Units	Australia	**100**	100
APOLLO Series 2003-1E Trust	Units	Australia	**100**	100
APOLLO Series 2003-2 Trust	Units	Australia	**100**	100
APOLLO Series 2004-1E Trust	Units	Australia	**100**	100
APOLLO Series 2004-2 Trust	Units	Australia	**100**	100
APOLLO Series 2005-1E Trust	Units	Australia	**100**	100
APOLLO Series 2005-2 Trust	Units	Australia	**100**	100
APOLLO Series 2006-1E Trust	Units	Australia	**100**	100
APOLLO Series 2007-1E Trust	Units	Australia	**100**	–

48. Consolidated entities (continued)

(b) Subsidiaries of Suncorp-Metway Ltd (continued)

Controlled entities	Class of shares	Country of incorporation	Equity holding 2007 %	2006 %
Australian Banking entities (continued)				
APOLLO Warehouse Trust No.1	Units	Australia	**100**	–
Excelle Pty Ltd	Ordinary	Australia	**100**	100
Graham & Company Limited	Ordinary	Australia	**100**	100
SME Management Pty Limited	Ordinary	Australia	**100**	100
SPDEF #2 Pty Limited	Ordinary	Australia	**100**	–
Suncorp Property Development Equity Fund #2 Unit Trust	Units	Australia	**100**	–
Polaris Data Centre Unit Trust	Units	Australia	**100**	–
Suncorp Finance Limited and its controlled entity	Ordinary	Australia	**100**	100
Medical & Commercial Finance Corporation Limited	Ordinary	Australia	**100**	100
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Metway Staff Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Metway Executive Performance Share Plan Trust	Units	Australia	**100**	100
Australian General Insurance entities				
Suncorp Metway Insurance Ltd [3-7] and its controlled entities	Ordinary	Australia	**100**	100
GIO Insurance Investment Holdings A Pty Limited and its controlled entities	Ordinary	Australia	**100**	100
GIO Australia Limited	Ordinary	Australia	**100**	100
GIO General Limited [4-7] and its controlled entity	Ordinary	Australia	**100**	100
GIO Workers Compensation (Victoria) Limited	Ordinary	Australia	**100**	100
RACT Insurance Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Metway Risk Management Pte Ltd	Ordinary	Singapore	**100**	100
Suncorp Property Development Equity Fund	Units	Australia	**100**	100
The Park Road Property Trust [8]	Units	Australia	**48**	48
Suncorp Investment Management High Alpha Trust [9]	Units	Australia	**57**	–
Vero Insurance Limited and its controlled entities	Ordinary	Australia	**100**	–
Amy Corporation Limited	Ordinary	Australia	**100**	–
Just Car Insurance Agency Pty Limited	Ordinary	Australia	**100**	–
APUA Pty Limited	Ordinary	Australia	**100**	–
Wiwaka Holdings Limited	Ordinary	Australia	**100**	–
Australian Alliance Insurance Company Limited and its controlled entities	Ordinary	Australia	**100**	–
Australian Pensioners Insurance Agency Pty Limited	Ordinary	Australia	**100**	–
InsureMyRide Pty Limited	Ordinary	Australia	**100**	–
Shannons Limited	Ordinary	Australia	**100**	–
Shannons Auctions Limited	Ordinary	Australia	**100**	–
Australian Associated Motor Insurers Limited and its controlled entities	Ordinary	Australia	**100**	–
ABBi Pty Limited	Ordinary	Australia	**100**	–
AAMI Superannuation Limited	Ordinary	Australia	**100**	–
Bingle.com Pty Limited	Ordinary	Australia	**100**	–
Skilled Drivers of Australia Limited [10]	N/A	Australia	**n/a**	–
Australian Surety Corporation Pty Limited and its controlled entity	Ordinary	Australia	**50.5**	–
New Zealand Surety Corporation Limited	Ordinary	New Zealand	**50.5**	–
Aviation Office of Australia Pty Limited	Ordinary	Australia	**100**	–
National Marine Insurance Agency Limited	Ordinary	Australia	**100**	–
Promina Equities Limited [11]	Ordinary	Australia	**100**	–
Secure Sentinel Pty Limited and its controlled entity	Ordinary	Australia	**100**	–
Secure Sentinel (NZ) Limited	Ordinary	New Zealand	**100**	–
Terri Scheer Insurance Brokers Pty Ltd	Ordinary	Australia	**100**	–
Suncorp Insurance Funding 2007 Limited	Ordinary	Australia	**100**	–

48. Consolidated entities (continued)

(b) Subsidiaries of Suncorp-Metway Ltd (continued)

Controlled entities	Class of shares	Country of incorporation	Equity holding 2007 %	2006 %
Australian Wealth Management entities				
Suncorp Life & Superannuation Limited and its controlled entities [3-7]	Ordinary	Australia	**100**	100
Suncorp Financial Services Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Investment Management Australian Cash Trust [3]	Units	Australia	**76**	71
Suncorp Investment Management Australian Equities Trust [4]	Units	Australia	**74**	75
Suncorp Investment Management Australian Fixed Interest Trust	Units	Australia	**90**	90
Suncorp Investment Management Global Macro Tactical Asset Allocation Trust [5]	Units	Australia	**65**	64
Suncorp Investment Management Property Securities Trust [6]	Units	Australia	**75**	69
Suncorp Investment Management World Equities Trust [7]	Units	Australia	**63**	67
Suncorp Investment Management World Fixed Interest Trust and its controlled entity	Units	Australia	**92**	92
Suncorp Investment Management Mortgage Backed Trust	Units	Australia	**88**	94
Suncorp Metway Investment Management Limited and its controlled entity [3]	Ordinary	Australia	**100**	100
SUNCORP Custodian Services Pty Ltd	Ordinary	Australia	**100**	100
Asteron Limited and its controlled entities	Ordinary	Australia	**100**	–
Camwal Limited (formerly Asteron Advisory Services Limited)	Ordinary	Australia	**100**	–
Asteron Life Limited and its controlled entities	Ordinary	Australia	**100**	–
	Preference	Australia	**100**	–
Tank Stream Trust	Units	Australia	**100**	–
Trustee Income Fund	Units	Australia	**100**	–
Asteron Portfolio Services Limited	Ordinary	Australia	**100**	–
	Preference	Australia	**100**	–
Financial Services Training and Assessment Pty Limited	Ordinary	Australia	**100**	–
Guardianfp Limited	Ordinary	Australia	**100**	–
Standard Pacific Financial Services (NSW) Limited and its controlled entities	Ordinary	Australia	**100**	–
Standard Pacific Consulting Limited	Ordinary	Australia	**100**	–
Standard Pacific Accounting Pty Limited	Ordinary	Australia	**100**	–
Tasman Asset Management Limited	Ordinary	Australia	**100**	–
Tasman Risk Management Pty Limited	Ordinary	Australia	**100**	–
Tyndall Funds Management Australia Limited	Ordinary	Australia	**100**	–
Tyndall Funds Limited [12]	Ordinary	Australia	**100**	–
Australian Other entities				
Suncorp Insurance Holdings Limited and its controlled entity	Ordinary	Australia	**100**	–
Promina Group Limited and its controlled entity [11]	Ordinary	Australia	**100**	–
Tyndall Investment Management Limited and its controlled entity	Ordinary	Australia	**100**	–
Tyndall Equities Australia Pty Limited [13]	"A" Class Ord	Australia	**100**	–
	"B" Class Pref	Australia	**–**	–
Hooker Corporation Limited and its controlled entities	Ordinary	Australia	**100**	100
LJ Hooker Limited	Ordinary	Australia	**100**	100
LJ Hooker Group Limited	Ordinary	New Zealand	**100**	100
Challenge Realty Group Limited	Ordinary	New Zealand	**100**	100
Suncorp Investment Management Imputation Trust [14]	Units	Australia	**55**	51

48. Consolidated entities (continued)

(b) Subsidiaries of Suncorp-Metway Ltd (continued)

Controlled entities	Class of shares	Country of incorporation	Equity holding 2007 %	Equity holding 2006 %
New Zealand entities				
Promina Group Holdings (NZ) Limited and its controlled entities	Ordinary	New Zealand	**100**	–
Promina Group New Zealand Limited and its controlled entities	Ordinary	New Zealand	**100**	–
	Preference	New Zealand	**–**	–
Asteron Life Limited and its controlled entities	Ordinary	New Zealand	**100**	–
Asteron Retirement Investment Limited	Ordinary	New Zealand	**100**	–
Asteron Superannuation Services Limited	Ordinary	New Zealand	**100**	–
Asteron Trust Services Limited	Ordinary	New Zealand	**100**	–
Northcroft Plaza Limited	Ordinary	New Zealand	**100**	–
NZGT Wholesale Mortgage Fund (GIF5)	Units	New Zealand	**100**	–
SAL Re Limited	Ordinary	New Zealand	**100**	–
Promina Group Services NZ Limited	Ordinary	New Zealand	**100**	–
The New Zealand Guardian Trust Company Limited and its	Ordinary	New Zealand	**100**	–
controlled entities	Preference	New Zealand	**–**	–
Guardian Trust Registry Services Limited	Ordinary	New Zealand	**100**	–
Guardian Trust Superannuation Trustees Limited	Ordinary	New Zealand	**100**	–
NZ International Trustee Company Limited	Ordinary	New Zealand	**100**	–
Tyndall Investment Management New Zealand Limited	Ordinary	New Zealand	**100**	–
Vero Insurance New Zealand Limited and its controlled entities	Ordinary	New Zealand	**100**	–
	Preference	New Zealand	**–**	–
AA Insurance Limited	Ordinary	New Zealand	**68**	–
Vero Liability Insurance Limited	Ordinary	New Zealand	**100**	–
Comprehensive Travel Insurance (2004) Limited and its controlled entities	Ordinary	New Zealand	**72**	–
Vero Warranty Limited	Ordinary	New Zealand	**100**	–
Mariner Underwriters Limited	Ordinary	New Zealand	**100**	–
Axiom Risk & Insurance Management Limited	Ordinary	New Zealand	**50**	–

Notes

1 Names indented in these tables indicate direct subsidiaries of the entities appearing above.
2 Non-operating and minor operating controlled entities are excluded from the above list.
3 Suncorp Life & Superannuation Limited holds a 76% interest, Suncorp Metway Insurance Ltd holds a 17% interest and Suncorp Metway Investment Management Limited holds a 0.1% interest in the Suncorp Investment Management Australian Cash Trust.
4 Suncorp Life & Superannuation Limited holds a 74% interest, GIO General Limited holds a 2% interest and Suncorp Metway Insurance Ltd holds a 3% interest in the Suncorp Investment Management Australian Equities Trust.
5 Suncorp Life & Superannuation Limited holds a 65% interest, GIO General Limited holds a 14% interest and Suncorp Metway Insurance Ltd holds a 17% interest in the Suncorp Investment Management Global Macro Tactical Asset Allocation Trust.
6 Suncorp Life & Superannuation Limited holds a 75% interest, GIO General Limited holds a 7% interest and Suncorp Metway Insurance Ltd holds a 1% interest in the Suncorp Investment Management Property Securities Trust.
7 Suncorp Life & Superannuation Limited holds a 63% interest, GIO General Limited holds a 7% interest and Suncorp Metway Insurance Ltd holds a 6% interest in the Suncorp Investment Management World Equities Trust.
8 Suncorp Metway Insurance Ltd holds a 48% interest and Graham & Company Limited holds a 20% interest in The Park Road Property Trust.
9 Suncorp Metway Insurance Ltd holds a 57% interest and GIO General Limited holds a 43% interest in the Suncorp Investment Management High Alpha Trust.
10 Skilled Drivers of Australia Limited ABN 71 005 918 301 (incorporated in Australia) is a controlled entity of Australian Associated Motor Insurers Limited but is not consolidated as it is a company limited by guarantee and members are not entitled to dividends or capital distributions.
11 Also registered as an overseas company in New Zealand.
12 In members' voluntary liquidation.
13 Owned by staff but shareholders' agreement gives Tyndall Investment Management Limited control for consolidation purposes.
14 Suncorp Life & Superannuation Limited holds a 55% interest in the Suncorp Investment Management Imputation Trust. Control is recognised at a Group level only as 'control' only exists where there is greater than 50% ownership and a Group subsidiary (Suncorp Metway Investment Management Limited) is the responsible entity of the trust.

49. Reconciliation of cash flows from operating activities

	CONSOLIDATED		COMPANY	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Profit for the year	**1,064**	916	**834**	817
Classified as investing activities				
Income tax paid – investing activities	**309**	218	**–**	–
Non-cash items				
Amortisation of share-based payments	**9**	4	**–**	3
Change in net market value of trading securities	**5**	(7)	**(11)**	(8)
Change in net market value of investments	**(791)**	(622)	**–**	–
Impairment losses on loans and advances	**25**	31	**14**	24
Depreciation/amortisation of property, plant and equipment and intangible assets	**221**	69	**–**	–
Loss on disposal of property, plant and equipment	**2**	–	**–**	–
Share of net profits of associates and joint ventures accounted for using the equity method	**29**	(6)	**–**	–
Change in assets and liabilities				
Gross up of GST on lease instalments included in operating payments	**21**	16	**21**	12
Net movement in tax balances	**(18)**	(33)	**(18)**	(26)
Increase in accrued interest receivable	**(10)**	11	**(18)**	(17)
(Increase) decrease in prepayments and deferred expenses	**(193)**	(46)	**–**	(29)
Increase in excess of net market value of interests in subsidiaries	**(19)**	(40)	**–**	–
Increase in bank securities	**(1,076)**	(612)	**(1,077)**	(611)
Increase in loans, advances and other receivables	**(5,901)**	(3,736)	**(6,663)**	(5,115)
(Increase) decrease in receivables and other financial assets	**(1,176)**	(143)	**(18)**	(22)
Increase (decrease) in accrued interest payable	**83**	61	**32**	36
Increase in deposits and short term borrowings	**3,843**	289	**6,528**	3,723
Increase (decrease) in sundry creditors and accrued expenses	**(79)**	110	**256**	(103)
Increase in outstanding claims liability	**76**	82	**–**	–
Increase in unearned premiums and unexpired risks liability	**97**	40	**–**	–
Increase in life insurance gross policy liabilities	**921**	616	**–**	–
Increase (decrease) in policy owner retained profits	**(28)**	(54)	**–**	–
Increase in provisions	**17**	8	**–**	(3)
Net cash inflow from operating activities	**(2,569)**	(2,828)	**(120)**	(1,319)

50. Key management personnel disclosures

(a) Suncorp Group remuneration policy

The Group's remuneration policies are based on the following principles and strategies:

- The remuneration framework is to be structured to support the Suncorp vision and business strategies and reward performance that enhances shareholder value on a sustainable basis.
- Individuals are to be rewarded on the basis of their contribution to the Group's overall performance and the achievement of personal, business unit and corporate objectives in the context of the Group's cultural objectives and strategies.
- Business performance factors that are measurable and directly linked to the Suncorp vision, business strategies and shareholder value, are to be the basis for determining the level of variable or at risk pay.
- The remuneration system is to be structured to place an emphasis on performance based pay while appropriately managing the fixed cost of labour.
- The remuneration system is to be a component in the overall Employee Value Proposition through which high performing employees are attracted and retained.
- The remuneration system, when coupled with the Group's performance management system, should encourage Suncorp's objective of embedding a high performing, customer focused team culture.

The principles noted above apply to the remuneration arrangements for all persons employed by the Group, including executive directors, company secretaries and senior managers. The remuneration policy relating to non-executive directors is discussed in the 'Non-executive Directors' Remuneration Policy and Structure' section of this report.

The Nomination & Remuneration Committee, which comprises four non-executive directors, is responsible for making recommendations to the Board on remuneration policy. Further information on the role of this Committee, its responsibilities and membership, is contained in the Corporate Governance Statement within the Annual Review.

(b) Executive remuneration approval process

The following approval processes apply in relation to establishing performance targets, assessing performance against targets and setting remuneration outcomes within the Suncorp remuneration policy framework.

- The Board (in the absence of the executive directors) approves the remuneration of the Chief Executive Officer (CEO), based on the recommendations of the Nomination & Remuneration Committee.
- The Nomination & Remuneration Committee approves the remuneration of Group Executives, based on the recommendations of the CEO.
- The CEO approves the performance targets and remuneration of Executive General Managers/General Managers, based on the recommendations of the Group Executives. The CEO also approves the performance targets of the Group Executive.

(c) Executive remuneration structure

Overview of executive remuneration structure

The Suncorp executive remuneration structure as explained below, applies to the CEO and Group Executives.

The executive remuneration structure comprises a fixed component and a variable or "at risk" component. The proportion of fixed and variable remuneration varies between levels of management, with the proportion of variable remuneration increasing in line with the seniority of the role.

The short and long term incentive plans described below represent the variable component of executive remuneration and those plans are structured to ensure outcomes are linked to actual and expected Group performance. In summary, the short term incentive plan is designed to reward individual performance on an annual basis and a key measure in determining the amount available for distribution is the Group's before tax profit during that period. The long term incentive plan is designed to reward executives on the basis of the Group's performance and the creation of shareholder value over a number of years, and the Company's share price and distributions to shareholders (compared with a peer group) are the key measures on which performance is assessed.

Fixed pay

This component of the remuneration structure is focused on the complexity of the role, the core role responsibilities and market relativities.

Fixed remuneration for executives is represented by a Total Employment Cost ("TEC"). TEC generally comprises a cash salary and superannuation contributions equivalent to 9% of the cash salary. Employees above a certain TEC level can elect to receive some of their cash salary in the form of other benefits, such as novated car leases and car parking. Employees are entitled to nominate a percentage of their cash salary be paid as additional superannuation contributions or to acquire Suncorp shares under the Deferred Employee Share Plan.

The level of fixed remuneration paid to Suncorp Group Executives reflects the core responsibilities of each role and is reviewed each year in the context of the market in which Suncorp competes. Independent remuneration consultants are engaged each year to advise on and provide information in relation to changes in executive remuneration levels in the financial services sector. This advice assists the Nomination & Remuneration Committee in making a determination of the remuneration levels that are appropriate for the Group, relative to the market in which it competes.

Market relativity is an important consideration if the Group is to attract and retain an executive team capable of achieving and sustaining a level of performance above both our business competitors and those companies with which we compete for capital.

50. Key Management Personnel disclosures (continued)

(c) Executive remuneration structure (continued)

Reporting fixed pay outcomes

Shareholders should note when reviewing the remuneration outcomes for the year, as disclosed in the Remuneration Tables in note 50(e) and 50(g), that the fixed pay outcomes reflect decisions by the Nomination & Remuneration Committee made 12 months earlier as well as those from the merger restructure in April this year.

Short term incentives ("STI")

While the Group has a number of short term performance-based pay plans for all eligible full time employees, the focus of this report is the short term incentive plan applicable to Suncorp Group Executives. Their short term incentive plan is based on the same principles outlined in the 'Suncorp Group Remuneration Policy' section.

This component of the remuneration structure is focused on individual performance over a short period (normally one financial year), assessed in the context of the specific business unit and overall Group performance and based on operational and financial measures.

Determination and allocation of short term incentives

At the end of each financial year, the Nomination & Remuneration Committee makes an assessment of Group performance for that year, taking into account factors such as the overall quality of the financial result, market influences and the prevailing economic environment.

Based on that assessment, the Nomination & Remuneration Committee determines the STI outcomes for individual Group Executives and those amounts form part of the Group STI pool. At this time, the Committee also makes a recommendation to the Board regarding the STI outcome for the CEO.

Those STI allocation decisions are based on the achievement of specific performance objectives and assessments of relative performance across the Group. The balanced scorecard system discussed below is one of the tools used to monitor and assess performance across the Group.

Balanced scorecards

The performance objectives for each business unit, division and executive are monitored using a system of balanced scorecards and progress in the achievement of the objectives is updated monthly.

The scorecard results for each Executive General Manager/General Manager within a business unit are combined to give a scorecard result for each Group Executive. The Group Executives' scorecards are then combined to form a Group scorecard, which represents the CEO's accountabilities and responsibilities. The Group scorecard and the business unit scorecards are presented to the Board each month for review.

The performance measures contained in the scorecards are a mixture of financial and non-financial indicators that are relevant to the Group's four primary stakeholders: shareholders, employees, customers and the community, but which reflect the individual executive's overall accountabilities and responsibilities.

While the scorecard metrics are defined and measurable in an absolute sense, the Suncorp performance management system requires leaders to balance the scorecard result with the manner in which the results were obtained. Therefore assessments are made having regard for the corporate values and the general manner in which the executive is seen to be supporting the desired corporate culture. Leaders are expected to be exemplars of Suncorp's values and any failure in that regard puts at risk STI eligibility.

This process ensures there is ongoing assessment of individual and Group performance and also helps align the reward system to key corporate strategies and the sustained performance of the Group.

Long term incentives ("LTI")

This component of the remuneration structure is focused on corporate performance and creating shareholder value over a multi-year period. However, long term incentives are also used to balance short term performance objectives with long term shareholder value.

Whilst short term incentives reward past performance it is essential that executives and senior management, as the group which has responsibility for achievement of sustained performance and strategy, have reward incentives linked to longer term Group performance and to creating value for shareholders. The Group has established the Executive Performance Share Plan as the vehicle to achieve these objectives.

Executive Performance Share Plan

The Executive Performance Share Plan ("EPSP"), was established in December 2002, following the decision to discontinue the previous plan, the Executive Option Plan ("EOP"), which is referred to earlier in this Report.

Under the terms of the EPSP, performance shares are offered to executives as the long term incentive component of their remuneration package each year. The value of the annual offers, while subject to Nomination & Remuneration Committee or Board approval, will generally be determined as a percentage of the executive's TEC, based on competitive market remuneration practices.

Executives do not receive unconditional ownership of the shares (an allocation) until the associated performance targets have been achieved.

LTI performance measures

The structure of the EPSP provides a linkage between remuneration rewards, Group performance and shareholder value by linking the executive's entitlement to performance shares, to the achievement of specified market linked performance targets.

The performance targets under the EPSP are based on the Suncorp Total Shareholder Return ("TSR").

TSR is the return to shareholders provided by growth in the share price plus reinvested dividends, expressed as a percentage of the investment over a specified performance period. In determining an executive's entitlement to shares, the Suncorp TSR result is compared to the TSR achieved by a comparator group of companies.

50. Key Management Personnel disclosures (continued)

(c) Executive remuneration structure (continued)

Long term incentives ("LTI") (continued)

LTI performance measures (continued)

Relative TSR performance was chosen as an appropriate LTI performance measure for the following reasons:

- TSR is a clearly defined and measurable indicator of the level of value created for shareholders over a specified period and therefore, when used as the basis for determining remuneration rewards, provides a direct linkage between those rewards and shareholder wealth. That is, LTI rewards cease during periods of under-performance and increase when superior performance is achieved.
- Because the value delivered to executives is determined by the Group's level of relative performance, the effects of market cycles are minimised. That is, LTI rewards are reduced or ceased during periods of under-performance, even in a rising market and superior performance is rewarded, even in a declining market.

It is important when considering relative performance, to ensure the basis of comparison is appropriate. The comparator group selected for the EPSP offers to date has comprised the top 50 ASX listed companies in the S&P/ASX 100 excluding listed property trusts. This group was chosen because those companies were seen to provide a relevant comparison from both a business and shareholder perspective.

The TSR ranking for Suncorp at the end of a performance period, when compared to the TSR of the relevant comparator group will determine an employee's entitlement to an allocation of shares, based on the following schedule:

Group performance	**% of shares allocated**
Less than the 50th percentile	0%
At the 50th percentile	50%
75th percentile or above	100%

If the TSR ranking for Suncorp is above the 50th percentile an additional 2% of the shares will be allocated for each full 1% increase above the 50th percentile (on a straight line basis) up to 100% of the offered shares at the 75th percentile.

The original EPSP offer was made on 13 December 2002. Since then there has been a separate offer made to the CEO (on 6 January 2003) and subsequent annual offers (to all executives) made on 1 October each year, commencing in 2003. The EPSP requires a minimum performance period of three years before an entitlement can be determined. During the financial year 2006/07, the October 2003 EPSP offer completed its minimum three year performance period.

Modifications to the terms of share-based payment arrangements during the year are summarised in note 26(c) and note 50(d). Details of these modifications for each key management person are set out below:

	Date of alteration of terms	Market price of shares at date of alteration $	Difference in total fair value $
Executive directors			
J F Mulcahy	07/06/2007	21.34	3,357,800
C Skilton	24/10/2006	20.70	839,789
Executives			
M Blucher	24/10/2006	20.70	656,009
D Foster	24/10/2006	20.70	138,649
B Inglis	24/10/2006	20.70	656,009
P Johnstone	24/10/2006	20.70	540,865
H Kogekar	24/10/2006	20.70	437,673
S McDonald	24/10/2006	20.70	267,204
M Milliner	24/10/2006	20.70	104,210

Performance periods

A performance period generally commences on the date of offer to the employee to participate in the EPSP and the first performance measurement point is three years after the offer date. The employee has the right to elect to receive an allocation of shares at that point based on the allocation schedule shown in the previous section of this report, or to extend the performance period a further two years.

If the employee elects to accept the year three performance result, any shares, subject to that same offer that are not allocated, are forfeited.

After year three, performance measurements are undertaken on a six monthly basis, in April and October each year, up to the end of year five. Employees electing to extend the performance period from three to five years 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 employee's 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 period from the end of year three to the end of year five inclusive. Shares not allocated at the end of year five are forfeited.

During a performance period, that is before shares are allocated to employees, the Trustee will receive dividends on those unallocated shares. The Trustee will pay tax on those dividends and the remaining after tax amount will be allocated to participating employees at the same time and in the same proportion the underlying shares are allocated to the employees.

Group performance and long term incentives

The comparative TSR hurdles which underpin the entitlement to long term incentives under the EPSP, reflect changes in shareholder wealth relative to the comparator group by incorporating both dividends paid by the Group and movement in its share price.

(d) Executive service agreements

Group Executives

Group Executives enter into a standard contract of employment which does not have a finite term. The contracts can be terminated by the employer (with the notice period varying from 52 weeks to 116 weeks) and the retrenchment payments generally in line with the specific notice period – with the exception of Mr Bell, who is also entitled to certain additional pension benefits. The employee can terminate their employment contract with a required notice period of 13 weeks and the associated termination payment arrangements, including retrenchment payments, are in line with the specific notice period – with the exception of Mr Belleville where, within the first 12 months of employment with Suncorp, he would be eligible for a termination payment equal to 78 weeks remuneration. The Board has discretion to make further payments upon the termination of an executive, but is under no obligation to do so.

50. Key Management Personnel disclosures (continued)

(d) Executive service agreements (continued)

Chief Executive Officer

During the year, a new service agreement applying to the CEO and Managing Director, Mr J Mulcahy, was signed. The new agreement is based on a twelve month rolling contract, replacing the previous one which was for a specified term of 5 years from 6 January 2003 and extendable by agreement. Under the new service agreement, Suncorp may terminate the contract at any time by giving 12 months notice, but may elect to bring the employment to an end earlier by paying the fixed remuneration component for the balance of the notice period. Mr Mulcahy may terminate the contract at any time by giving a minimum of 3 months notice.

In accordance with the LTI arrangements in place for other Suncorp senior executives, Mr Mulcahy has received offers of performance shares during each year of his term in office, commencing in 2003 and as summarised below.

All offers have been made in accordance with the terms of the EPSP and are therefore subject to the terms of the EPSP, including TSR based performance hurdles as detailed earlier in this report.

Offer date	Shares offered [1]	Performance period end date	Minimum entitlement as at 31 March 2007
January 2003	Tranche 1 – 103,300 Tranche 2 – 103,300 Tranche 3 – 103,300	5 January 2008 [2]	Tranche 1 – 80% Tranche 2 – 80% Tranche 3 – No current entitlement
October 2004	103,300	30 September 2007 [3]	No current entitlement
October 2005	123,961	30 September 2008 [3]	No current entitlement
October 2006	123,961	30 September 2009 [3]	No current entitlement

Notes

1 Includes an adjustment to offset the dilutionary impact of the 2007 rights entitlement issue.

2 The Performance period end date for Tranche 3 is 5 January 2008. For Tranches 1 and 2, Mr Mulcahy may elect, after 5 January 2008, whether the Performance period end date is 5 January 2006, 31 March 2006, 30 September 2006, 31 March 2007, 30 September 2007 or 5 January 2008. If Mr Mulcahy was entitled to make his election now, he could choose a Performance period end date which would entitle him to 80% of the offered shares for Tranches 1 and 2.

3 At the end of the initial three year Performance period, Mr Mulcahy has the right to elect to accept that the Performance period ends on that date, or to extend the Performance period for a further two years. If he elects to extend the Performance period, he may elect at the end of those additional two years when the Performance period ends (being the initial Performance period end date or any six month period after that date, up to and including the extended end date).

The new contract continues these arrangements, other than as outlined below, and Mr Mulcahy will be offered a further 180,000 shares under the terms of the EPSP in October 2007. He will also be entitled to participate in future EPSP offers.

The amendments to Mr Mulcahy's previous arrangements include:

- As a retention incentive, Mr Mulcahy will receive 100% of the performance shares under the 2004 and 2005 offers if he remains as CEO until October 2009 and 2010 respectively. These allocations will be granted irrespective of TSR performance.

  As a result of this arrangement, Mr Mulcahy will forgo any entitlement he may otherwise have received at the end of the initial three year performance period for each of the 2004 and 2005 share offers and, if he resigns prior to 30 September 2009, he will forfeit any entitlement to the 2004 and 2005 shares. If Mr Mulcahy resigns after 30 September 2009 but prior to 30 September 2010, he will forfeit any entitlement to the 2005 shares.

- Mr Mulcahy is presently entitled to receive a minimum of 80% of the Tranche 1 and 2 shares from the 2003 offer if his employment is terminated prior to 5 January 2008 by the Company (other than for cause) or by him in certain limited circumstances.

  It has been agreed as part of the contract renewal terms that Mr Mulcahy will retain the same entitlement (that is a minimum of 80% of the Tranche 1 and 2 shares), should he terminate the contract for any reason prior to 5 January 2008.

50. Key Management Personnel disclosures (continued)

(e) Key management personnel (excluding non-executive directors) – remuneration tables

Total remuneration

The following are the Company's executives (other than executive directors) who had authority and responsibility for planning, directing and controlling the activities of the Company and the Group during the financial year. In conjunction with the Board of Directors, these executives constitute the key management personnel ("KMP") of the Company. These executives are also included as the executives (other than executive directors) who received the highest remuneration for the year in accordance with S300A of the *Corporations Act 2001*. There are no other executives employed within the Group that are considered to be Group KMPs. Other executives who have received higher remuneration that some of the executives that constitute the KMP of the Company are included in the Directors' Report as part of the five most highly remunerated executives in accordance with S300A of the *Corporations Act 2001*.

Mark Blucher	Group Executive Insurance – Personal Lines
Diana Eilert	Group Executive People, Technology and Marketing (resigned 13 April 2007)
David Foster	Group Executive Group Strategy (appointed 1 July 2006)
Bernadette Inglis	Group Executive Retail Banking and Wealth Management
Peter Johnstone	Group Executive (resigned 30 September 2006)
Hemant Kogekar	Group Executive (resigned 6 July 2006)
Stuart McDonald	Group Executive Business Banking
Mark Milliner	Group Executive Insurance – Commercial Lines (appointed 1 July 2006)
John F Mulcahy	Chief Executive Officer
Christopher Skilton	Chief Financial Officer

The following executive team was appointed on 30 March 2007:

Roger Bell	Group Executive Vero New Zealand
Robert Belleville	Group Executive Personal Insurance
Mark Blucher	Group Executive Integration
David Foster	Group Executive Retail Banking
Dennis Fox	Group Executive Wealth Management
Bernadette Inglis	Group Executive Strategy, People and Corporate Services
Stuart McDonald	Group Executive Business Banking
Mark Milliner	Group Executive Commercial Insurance
Jeff Smith	Group Executive Information Technology

50. Key Management Personnel disclosures (continued)

(e) Key management personnel (excluding non-executive directors) – remuneration tables (continued)

Total remuneration (continued)

The following table provides the details of the nature and components of the remuneration paid to the KMPs (excluding non-executive directors) for the period they were a KMP of the Group. Details of non-executive director remuneration are provided later in this note.

	Short term				Post employment		Long term	Share based payments		Total
	Salary and fees $	STI bonus [1] $	Non-monetary benefits [2] $	Other [3] $	Super-annuation benefits $	Termination $	Other [3] $	Shares [4] $	Options [5] $	$
2007										
Executive directors										
J F Mulcahy	1,694,887	2,000,000	2,907	6,530	105,113	–	–	1,525,635	–	5,335,072
C Skilton	854,814	780,000	2,223	490,111	12,686	–	85,577	828,131	–	3,053,542
Executives										
R Bell	166,483	280,000	13,826	349,460	32,284	–	–	27,171	–	869,224
R Belleville	173,953	360,000	31,481	415,469	18,294	–	3,351	33,442	–	1,035,990
M Blucher	623,110	530,000	337	388,010	39,390	–	10,383	645,415	–	2,236,645
D Eilert	476,536	437,500	2,784	297,575	10,003	675,000	–	1,398,243	–	3,297,641
D Foster	488,003	420,000	33,201	302,949	43,920	–	–	179,168	–	1,467,241
D Fox	178,847	330,000	86	363,667	3,448	–	2,960	29,261	–	908,269
B Inglis	644,108	530,000	814	417,332	12,594	–	–	642,944	–	2,247,792
P Johnstone	121,828	–	85	(13,569)	3,172	–	(19,139)	908,688	–	1,001,065
H Kogekar	16,869	–	9,583	(1,477)	439	550,000	–	463,812	–	1,039,226
S McDonald	599,814	500,000	27,234	323,448	12,686	–	15,668	282,477	–	1,761,327
M Milliner	475,035	410,000	14,486	365,062	42,753	–	8,153	139,576	–	1,455,065
J Smith	164,961	220,000	86	3,226	14,847	–	–	–	–	403,120
2006										
Executive directors										
J F Mulcahy	1,648,296	1,600,000	2,651	(31,742)	100,587	–	–	1,039,832	–	4,359,624
C Skilton	756,611	640,000	2,651	35,025	12,139	–	–	399,406	35,347	1,881,179
Executives										
M Blucher	545,610	360,000	380	14,690	39,390	–	9,087	327,383	10,099	1,306,639
D Eilert	572,861	330,000	380	2,203	12,139	–	–	227,844	–	1,145,427
B Inglis	572,861	390,000	9,693	(29,109)	12,139	–	–	227,844	–	1,183,428
P Johnstone	472,861	310,000	380	(20,005)	12,139	–	7,877	320,802	12,624	1,116,678
H Kogekar	457,724	300,000	380	(3,521)	15,353	–	–	356,577	–	1,126,513
S McDonald	276,757	240,000	2,290	12,174	6,760	–	6,946	20,426	–	565,353
R Reimer	231,090	–	57,790	(17,935)	20,417	–	(24,743)	516,889	2,525	786,033

Notes

1 Refer to the earlier section 'Executive remuneration structure – short term incentives' for a discussion of the Company's short term incentive arrangements.

2 'Non-monetary benefits' includes the cost to the Company of providing certain fringe benefits. Where those costs represent fringe benefits for motor vehicle leases, those costs are met by the employee through salary sacrifice.

3 Comprises benefits paid to secure the retention of key executives during the critical period following the announcement of the Promina transaction together with annual leave and long service leave accrued or utilised during the financial year. Retention arrangements were outlined in the Scheme Booklet for Promina shareholders, December 2006.

4 Performance shares issued as long term incentives to executives and executive directors are expensed to the Income Statement based on their fair value over the period from offer date to vesting date. At vesting date, the difference between the purchase price and fair value is also expensed to the Income Statement. The fair value was assessed using a Monte-Carlo model and reflects the fact that an executive's entitlement to the shares is dependent on meeting performance hurdles based on TSR.

5 The Company previously issued options as part of long term incentives to executives (last tranche issued 22 April 2002). The amounts disclosed are based on the assessed fair value at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value allocated to the previous reporting period.

50. Key Management Personnel disclosures (continued)

(e) Key management personnel (excluding non-executive directors) – remuneration tables (continued)

Details of the vesting profile of the deferred ordinary shares granted in this or previous financial years which affect compensation this year for each executive director and each executive (including former executives) are detailed below.

	Deferred ordinary shares granted					Value yet to vest	
	Number	Date	Vested in year %	Forfeited in year %	Financial years in which grant vests	Min[1] $	Max[2] $
Executive directors							
J F Mulcahy	100,000	6 January 2003	–	–	30 June 2008[4]	–	684,300
	3,300	17 April 2007	–	–	30 June 2008[4]	–	57,156
	100,000	6 January 2003	–	–	30 June 2008	–	713,900
	3,300	17 April 2007	–	–	30 June 2008	–	31,284
	100,000	6 January 2003	–	–	30 June 2008	–	739,700
	3,300	17 April 2007	–	–	30 June 2008	–	57,156
	100,000	1 October 2004	–	–	30 June 2008	–	2,075,500
	3,300	17 April 2007	–	–	30 June 2008	–	33,990
	120,000	1 October 2005	–	–	30 June 2009	–	3,529,200
	3,961	17 April 2007	–	–	30 June 2009	–	17,508
	120,000	1 October 2006	–	–	30 June 2010	–	1,489,200
	3,961	17 April 2007	–	–	30 June 2010	–	30,856
C Skilton	41,021	13 December 2002	–	–	30 June 2008[4]	–	268,852
	1,353	17 April 2007	–	–	30 June 2008[4]	–	23,556
	41,981	1 October 2003	78	22	30 June 2007	–	–
	32,808	1 October 2004	–	–	30 June 2008	–	586,115
	1,082	17 April 2007	–	–	30 June 2008	–	22,261
	40,465	1 October 2005	–	–	30 June 2009	–	1,003,127
	1,335	17 April 2007	–	–	30 June 2009	–	27,466
	38,610	1 October 2006	–	–	30 June 2010	–	479,150
	1,274	17 April 2007	–	–	30 June 2010	–	9,924
Executives							
R Bell	23,813	1 April 2007	–	–	30 June 2010	–	271,706
R Belleville	29,309	1 April 2007	–	–	30 June 2010	–	334,416
M Blucher	33,585	1 October 2003	78	22	30 June 2007	–	–
	27,559	1 October 2004	–	–	30 June 2008	–	492,342
	909	17 April 2007	–	–	30 June 2008	–	18,702
	30,349	1 October 2005	–	–	30 June 2009	–	752,352
	1,001	17 April 2007	–	–	30 June 2009	–	20,594
	28,900	1 October 2006	–	–	30 June 2010	–	358,649
	953	17 April 2007	–	–	30 June 2010	–	7,424
D Eilert	29,387	3 November 2003	78	22	30 June 2007	–	–
	27,559	1 October 2004	100[5]	–	30 June 2008	–	–
	30,349	1 October 2005	100[5]	–	30 June 2009	–	–
	28,900	1 October 2006	–	–	30 June 2010	–	358,649
	954	17 April 2007	–	–	30 June 2010	–	7,431
D Foster	14,693	1 October 2003	78	22	30 June 2007	–	–
	5,577	1 October 2004	–	–	30 June 2008	–	87,876
	184	17 April 2007	–	–	30 June 2008	–	3,787
	6,576	1 October 2005	–	–	30 June 2009	–	143,783
	217	17 April 2007	–	–	30 June 2009	–	4,466
	23,120	1 October 2006	–	–	30 June 2010	–	286,919
	763	17 April 2007	–	–	30 June 2010	–	5,945

50. Key Management Personnel disclosures (continued)

(e) Key management personnel (excluding non-executive directors) – remuneration tables (continued)

	Deferred ordinary shares granted (continued)					Value yet to vest	
	Number	Date	Vested in year %	Forfeited in year %	Financial years in which grant vests	Min [1] $	Max [2] $
Executives (continued)							
D Fox	25,645	1 April 2007	–	–	30 June 2010	–	292,609
B Inglis	29,387	1 October 2003	78	22	30 June 2007	–	–
	27,559	1 October 2004	–	–	30 June 2008	–	492,342
	910	17 April 2007	–	–	30 June 2008	–	18,716
	30,349	1 October 2005	–	–	30 June 2009	–	752,352
	1,002	17 April 2007	–	–	30 June 2009	–	20,611
	28,900	1 October 2006	–	–	30 June 2010	–	358,649
	951	17 April 2007	–	–	30 June 2010	–	7,408
P Johnstone	25,188	1 October 2003	–	–	30 June 2009[6]	–	178,583
	831	17 April 2007	–	–	30 June 2009	–	14,900
	22,310	1 October 2004	–	–	30 June 2008	–	398,569
	736	17 April 2007	–	–	30 June 2008	–	15,152
	25,291	1 October 2005	–	–	30 June 2009	–	626,964
	835	17 April 2007	–	–	30 June 2009	–	17,176
	5,780	1 October 2006	–	–	30 June 2010	–	71,730
	191	17 April 2007	–	–	30 June 2010	–	1,486
H Kogekar [3]	2,938	1 October 2003	–	–	30 June 2009[6]	–	20,830
	97	17 April 2007	–	–	30 June 2009	–	1,738
	10,663	1 October 2004	–	–	30 June 2008	–	190,494
	352	17 April 2007	–	–	30 June 2008	–	7,242
	25,291	1 October 2005	–	–	30 June 2009	–	626,964
	834	17 April 2007	–	–	30 June 2009	–	17,159
S McDonald [3]	3,358	1 October 2003	78	22	30 June 2007	–	–
	4,593	1 October 2004	–	–	30 June 2008	–	82,054
	152	17 April 2007	–	–	30 June 2008	–	3,119
	16,692	1 October 2005	–	–	30 June 2009	–	413,794
	551	17 April 2007	–	–	30 June 2009	–	11,336
	28,900	1 October 2006	–	–	30 June 2010	–	358,649
	952	17 April 2007	–	–	30 June 2010	–	7,416
M Milliner	2,896	1 October 2003	78	22	30 June 2007	–	–
	3,773	1 October 2004	–	–	30 June 2008	–	59,451
	124	17 April 2007	–	–	30 June 2008	–	2,551
	5,216	1 October 2005	–	–	30 June 2009	–	114,047
	172	17 April 2007	–	–	30 June 2009	–	3,539
	20,808	1 October 2006	–	–	30 June 2010	–	258,227
	686	17 April 2007	–	–	30 June 2010	–	5,344
R Reimer	31,905	13 December 2002	–	–	30 June 2008[4]	–	209,105
	1,052	17 April 2007	–	–	30 June 2008[4]	–	18,315
	29,387	1 October 2003	–	–	30 June 2009	–	208,354
	969	17 April 2007	–	–	30 June 2009	–	17,364
	27,559	2 October 2004	–	–	30 June 2008	–	492,342
	909	17 April 2007	–	–	30 June 2008	–	18,702
	15,175	3 October 2005	–	–	30 June 2009	–	376,188
	501	17 April 2007	–	–	30 June 2009	–	10,307

Notes

1 The minimum value of shares yet to vest is $nil as the performance criteria may not be met and consequently the shares may not vest.
2 The maximum value of shares yet to vest is determined at the fair value at grant date, assuming all performance criteria are met.
3 Some shares were granted prior to appointment as an executive. The remuneration table includes the value from date of appointment as an executive.
4 Original vesting date fell within 2006 financial year, but this has been extended until the 2008 financial year, as per 'Performance periods' in Note 50(c).
5 These shares vested upon resignation of Ms Eilert on 13 April 2007.
6 Original vesting date fell within 2006 financial year, but this has been extended until the 2009 financial year, as per 'Performance periods' in Note 50(c).

50. Key Management Personnel disclosures (continued)

(f) Non-executive directors' remuneration policy and structure

Remuneration policy

The Nomination & Remuneration Committee has responsibility for recommending to the Board, appropriate remuneration arrangements for non-executive directors. Those recommendations are based on a number of considerations, including:

- the overall performance of the Company;
- the demands placed on directors in performing their role; and
- advice from independent remuneration consultants on the remuneration practices and fee structures of comparable companies.

Overall these arrangements are designed to ensure the fee structure for non-executive directors remains sufficiently competitive to attract and retain suitably qualified and experienced directors, within a framework appropriate for the Company, given its size and complexity.

Remuneration structure

Total Remuneration Limit

Decisions by the Board in relation to non-executive remuneration must be determined within the maximum aggregate limit approved by the shareholders, which is currently $3,500,000 per annum. That limit was approved by shareholders in April 2007, and includes superannuation guarantee payments but excludes retirement benefits.

Non-executive director remuneration comprises a fixed component only, paid as directors' fees, as explained below, and although the performance of the Company is considered whenever director remuneration is reviewed, non-executive directors do not participate in any performance incentive plans.

Directors Fees

The fee structure for non-executive directors was reviewed in July 2007 and the following fee structure was adopted effective 1 July 2007:

Role	Current fee p.a.*
Chairman of Directors	$550,000
Audit Committee Chairman	$250,000
Risk Committee Chairman	$240,000
Non-executive Director fee (includes fee for membership of either the Risk or Audit Committee)	$220,000
Nomination & Remuneration Committee Member	$210,000

* Fees exclude Superannuation Guarantee Charge

All non-executive directors of Suncorp-Metway Ltd (the parent entity) are also non-executive directors of the Group's main operating subsidiaries as listed below:

- Suncorp Metway Insurance Ltd
- GIO General Limited
- RACT Insurance Pty Ltd
- Suncorp Life & Superannuation Limited
- Asteron Life Limited
- Australian Alliance Insurance Company Limited
- Australian Associated Motor Insurers Limited
- Promina Group Limited
- Vero Insurance Limited

These entities are all APRA regulated however no additional fees are paid for membership of those boards.

Superannuation

Suncorp pays the Superannuation Guarantee Charge ("SGC") on behalf of all eligible non-executive directors. If a director ceases to be eligible for SGC payments, the equivalent amount is paid in fees. The SGC payments for non-executive directors are included in the maximum aggregate remuneration limit approved by shareholders.

Retirement Benefits

Shareholders have approved a directors' retirement plan ("Plan") which entitles directors to be paid a retirement benefit based on the highest total emoluments paid to a director during any consecutive three year period. However those retirement benefit arrangements are currently being phased out in the following manner:

- The Company ceased to offer retirement benefits to non-executive directors appointed after 30 June 2003.
- Directors in office at 30 June 2003 remain contractually entitled to a retirement benefit. However those directors agreed to cap their benefit entitlement as at 30 June 2004 and amortise their respective benefits entitlement from that date, over the period they remain in office, at a rate equivalent to 20% of their annual directors' fees.
- Directors remain entitled to receive the greater of:
  – the amortised balance of their retirement benefit at the date they retire from office; or
  – an amount equal to 25% of the total emoluments they received as a director over the period from the date of their appointment as a director to 30 June 2004.
- In recognition of the phasing out of the retirement benefits, directors' fees were increased by 25%. For directors with accrued benefits, that increase applied from 1 July 2004, being the date of commencement for the amortisation of their retirement benefits. For directors with no accrued benefit, the increase applied from their date of appointment.

Directors believe these arrangements meet the intent of recent guidance on directors' remuneration while giving appropriate recognition to directors' past service and contractual rights. As a result of the introduction of the above arrangements, the total of the directors' retirement benefits provision reduced by over 18% during the year.

50. Key Management Personnel disclosures (continued)

(f) Non-executive directors' remuneration policy and structure (continued)

Remuneration structure (continued)

The movement in that provision for each director, the amount of retirement benefits paid to retiring directors during the year under the terms of the Plan and full details of directors' benefits and interests are set out in note 50(g).

Non-executive Director's Share Plan

Non-executive directors are entitled to participate in the Non-Executive Directors Share Plan ("NEDSP"), which was established in November 2001 following shareholder approval.

Under the terms of the NEDSP, if a non-executive director elects to participate, they can nominate a percentage of their pre-tax remuneration that is to be used to fund the acquisition of Suncorp-Metway Ltd ordinary shares. The shares are acquired on market at pre-determined dates during the year and those dates reflect the terms of the Group's Share Dealing policy.

The shares are fully vested at the date of acquisition and can be held in the NEDSP for up to 10 years from that date or until the participating director retires from office, whichever occurs first.

(g) Non-executive directors – remuneration tables

The Company's Board of Directors at any time during or since the end of the financial year are:

John D Story (Chairman)

John F Mulcahy (Managing Director)

William J Bartlett

Dr Ian D Blackburne

Paula J Dwyer (appointed 26 April 2007)

Dr Cherrell Hirst AO

James J Kennedy AO CBE (retired 31 December 2006)

Martin D E Kriewaldt

Ewoud J Kulk (appointed 20 March 2007)

Geoffrey T Ricketts (appointed 20 March 2007)

Christopher Skilton (Chief Financial Officer and Executive Director)

Dr Zygmunt E Switkowski

Leo E Tutt (appointed 20 March 2007)

50. Key Management Personnel disclosures (continued)

(g) Non-executive directors – remuneration tables (continued)

The following table provides details of all non-executive directors of the Company and the nature and amount of the elements of their remuneration

	Short term		Post employment		Share based payments	Total
	Salary and fees $	Non-monetary benefits $	Superannuation $	Retirement benefits[1] $	Shares[2] $	$
2007						
Non-executive directors						
W J Bartlett	90,332	337	105,113	–	46,875	242,657
I D Blackburne	166,562	337	18,591	(41,312)	40,000	184,178
P J Dwyer	51,591	61	4,643	–	–	56,295
C Hirst	157,050	337	16,341	–	24,512	198,240
J J Kennedy[3]	95,375	337	–	(19,075)	–	76,637
M D E Kriewaldt	133,562	337	64,341	(36,312)	–	161,928
E J Kulk	31,977	95	24,257	–	–	56,329
G T Ricketts	51,591	95	4,643	–	–	56,329
J D Story	282,850	337	101,178	(88,812)	100,000	395,553
Z E Switkowski	181,562	337	16,341	–	–	198,240
L E Tutt	51,591	95	4,643	–	–	56,329
2006						
Non-executive directors						
W J Bartlett	87,500	380	17,550	–	107,500	212,930
I D Blackburne	136,500	380	17,550	(42,167)	58,500	170,763
R F Cormie	51,427	95	4,629	(10,736)	–	45,415
C Hirst	142,500	380	15,412	(23,802)	28,750	163,240
J J Kennedy	186,662	380	–	(38,917)	–	148,125
M D E Kriewaldt	171,249	380	15,412	(34,749)	–	152,292
J D Story	314,333	380	67,106	(92,625)	90,667	379,861
Z E Switkowski	137,311	285	12,358	–	–	149,954

Notes

1 The retirement benefits arrangements for directors are being phased out and individual benefit entitlements are being reduced over the period directors remain in office.

2 The shares were acquired under the Non-Executive Directors' Share Plan and funded by pre-tax remuneration. No performance criteria are attached to these shares.

3 Retired 31 December 2006 and received a retirement benefit payment of $149,424 (less tax).

50. Key Management Personnel disclosures (continued)

(h) Key management personnel compensation

The key management personnel compensation included in 'Staff expenses' (refer note 7) are as follows:

	CONSOLIDATED		COMPANY	
	2007 $	2006 $	**2007 $**	2006 $
Short-term employee benefits	**18,620,419**	10,973,188	**18,620,419**	10,973,188
Long-term employee benefits	**106,953**	(833)	**106,953**	(833)
Post-employment benefits	**526,210**	138,085	**526,210**	138,085
Equity compensation benefits	**7,315,349**	3,783,015	**7,315,349**	3,783,015
Termination benefits	**1,225,000**	–	**1,225,000**	–
	27,793,931	14,893,455	**27,793,931**	14,893,455

(i) Individual directors and executives compensation disclosures

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

(j) Loans to key management personnel and their related parties (consolidated)

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 in the reporting period, are as follows:

	Balance 1 July 2006 $	**Balance 30 June 2007 $**	**Interest charged $**	**Highest balance in year $**
Director				
J F Mulcahy	**–**	**1,249,091**	**7,066**	**1,250,075**
L E Tutt	**–**	**394,139**	**16,112**	**397,709**
Executives				
M Blucher	**1,084,142**	**985,498**	**67,220**	**1,090,279**
P Johnstone	**897,258**	**987,889**	**61,606**	**1,232,647**
H Kogekar	**224,239**	**224,239**	**13,243**	**224,239**
S McDonald	**1,322,624**	**1,313,969**	**84,798**	**1,529,211**
M Milliner [1]	**875,046**	**1,116,253**	**76,157**	**1,208,590**

1 Mr Milliner was appointed on 1 July 2006.

New loan facilities totalling $3.4 million (2006: $1.2 million) were made to key management personnel and their related parties during the year.

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

	Opening balance	**Closing balance**	**Interest charged**	**Individuals in group at 30 June**
Total for key management personnel 2007	**3,528,263**	**4,627,848**	**303,024**	**5**
Total for key management personnel 2006	2,684,275	3,528,263	356,893	4
Total for other related parties 2007	**–**	**1,643,230**	**23,178**	**2**
Total for other related parties 2006	–	–	–	–
Total for key management personnel and their related parties 2007	**3,528,263**	**6,271,078**	**326,202**	**7**
Total for key management personnel and their related parties 2006	2,684,275	3,528,263	356,893	4

The loans to executives 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 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.

50. Key Management Personnel disclosures (continued)

(k) Other key management personnel transactions with the Company or its subsidiaries

Financial instrument transactions

Financial instrument transactions between the Company 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

The Company has agreements with some non-executive directors providing for benefits to be paid on their retirement or death. The maximum benefit payable to a director under the original agreement is the total of annual fees paid by the Company to the director in respect of the highest consecutive three years of service, however those benefits are subject to amortisation.

Mr John D Story was, until 30 June 2006, a partner of Corrs Chambers Westgarth Lawyers, which provided legal services to the Suncorp Group throughout the year. Mr Story remained as the non-executive Chairman of the board of directors of that firm until his resignation on 21 June 2007. Fees paid to the firm during the financial year amounted to $3,534,387 (2006: $2,057,239). Amounts currently payable at balance date to Corrs Chambers Westgarth Lawyers totalled $21,507 (2006: $nil).

Mr Martin D E Kriewaldt provided advice to AON Holdings Australia Limited and Allens Arthur Robinson Lawyers throughout the year. Those firms provided insurance brokerage and legal services respectively to the Group. These services are provided under normal terms and conditions.

Mr Geoffrey T Ricketts is a director and Chairman of Spotless Group Limited, the parent entity of a company that provided catering services to the Group over the course of the year. The contractual arrangements between the Company and Spotless Services Australia Limited were in place prior to the date Mr Ricketts joined the Suncorp board. Goods and services purchased from Spotless Group Limited during the financial year amounted to $375,616. There is no amount currently payable to Spotless Group at balance date.

As at 30 June 2007, Mr Ewoud J Kulk holds 211,371 units in Tyndall Australian Wholesale Portfolio ("TASWP"), a registered managed investment scheme of which Tasman Asset Management Limited (a controlled entity of Suncorp) is the Responsible Entity and therefore the issuer of the TASWP units.

In connection with the merger between Suncorp sand Promina, retention arrangements have been offered to certain ex-Promina group management. Under these arrangements, the executives (excluding Mr Wilkins) who remain with the merged group until 30 June 2007 or are made redundant prior to that date will receive the equivalent of six months of their remuneration package in the form of a retention bonus. Those who remain until 30 June 2008 or are made redundant after 30 June 2007 but prior to 30 June 2008 will receive a further retention bonus equivalent to three months of their remuneration package.

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.

(l) Options over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Number of options held Balance 1 July 2006	Options exercised	Net change other	Balance 30 June 2007
Directors				
C Skilton	**116,667**	**(116,667)**	–	–
Executives				
M Blucher	**34,000**	**(34,000)**	–	–
P Johnstone	**42,000**	**(42,000)**	–	–

(m) Equity instruments provided on exercise of options granted as compensation

During the year, the following shares were issued on the exercise of options previously granted as compensation:

	Shares issued (Number)	Number of rights exercised	$ paid per share	$ unpaid per share
Executive directors				
C Skilton	**116,667**	**116,667**	**11.62**	–
Executives				
M Blucher	**34,000**	**34,000**	**11.62**	–
P Johnstone	**42,000**	**42,000**	**11.62**	–

50. Key Management Personnel disclosures (continued)

(n) Movement in shares

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management personnel, including their related parties, is as follows [1]:

	Balance 1 July 2006	Received as compensation[2]	Options exercised	Purchases (Sales)	Other changes	Balance 30 June 2007
Directors						
Executive directors						
J F Mulcahy	720,000	141,122	–	–	–	861,122
C Skilton	433,730	34,418	116,667	(203,748)	–	381,067
Non-executive directors						
J D Story	77,860	4,389	–	10,646	–	92,895
W J Bartlett	13,053	3,587	–	–	–	16,640
I D Blackburne	21,831	2,633	–	3,070	–	27,534
P J Dwyer	n/a	–	–	15,000	–	15,000
C Hirst	7,111	1,426	–	1,034	–	9,571
J J Kennedy [3]	1,000	–	–	–	(1,000)	–
M D E Kriewaldt	48,901	–	–	7,164	–	56,065
E J Kulk	n/a	–	–	6,812	–	6,812
G T Ricketts	n/a	–	–	15,598	–	15,598
Z E Switkowski	10,000	–	–	1,333	–	11,333
L E Tutt [4]	n/a	–	–	38,695	5,000	43,695
Executives						
R Bell [5]	n/a	23,813	–	37,628	46,371	107,812
R Belleville [6]	n/a	29,309	–	–	104,674	133,983
M Blucher	282,758	24,374	34,000	(17,354)	–	323,778
D Eilert [7]	87,295	22,434	–	–	(109,729)	–
D Foster	n/a	–	–	12,988	–	12,988
D Fox [8]	n/a	1,162	–	(94,000)	144,284	51,446
B Inglis	97,295	–	–	–	–	97,295
P Johnstone	525,300	5,780	42,000	48,575	–	621,655
H Kogekar [9]	50,065	–	–	–	(50,065)	–
S McDonald	43,549	–	–	11,946	–	55,495
M Milliner [10]	n/a	33,037	–	30,863	4,309	68,209
J Smith	n/a	–	–	–	–	–

Notes

1 The number of shares disclosed for executive directors and executives may include shares held by the trustee of the Executive Performance Share Plan and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles. In regard to the 861,122 shares attributed to Mr Mulcahy, 433,861 shares remain subject to TSR performance hurdles and of the 381,067 shares attributed to Mr Skilton, 157,948 shares remain subject to performance hurdles.

2 For executive directors and executives, includes shares held under the Executive Performance Share Plan (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. 179,032 shares vested during the 2007 financial year (2006: 53,600). The remuneration disclosure includes the fair value of the shares allocated over the vesting period. For non-executive directors, includes shares acquired under the Non-Executive Directors Share Plan and funded by pre-tax remuneration.

3 Mr Kennedy resigned during the period. Shares held upon resignation are shown in 'Other changes'.

4 Mr Tutt was appointed during the period. Shares held upon appointment are shown in 'Other changes'.

5 Mr Bell was appointed during the period. Shares held upon appointment are shown in 'Other changes'.

6 Mr Belleville was appointed during the period. Shares held upon appointment are shown in 'Other changes'.

7 Ms Eilert resigned during the period. Shares held upon resignation are shown in 'Other changes'.

8 Mr Fox was appointed during the period. Shares held upon appointment are shown in 'Other changes'.

9 Mr Kogekar resigned during the period. Shares held upon resignation are shown in 'Other changes'.

10 Mr Milliner was appointed during the period. Shares held upon appointment are shown in 'Other changes'.

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

51. Other related party disclosures

(a) Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 48), associates and joint ventures (see note 19) and with its key management personnel (see note 50).

(b) Other related party transactions with subsidiaries

Transactions between the Company and subsidiaries consisted of advances made and repaid, dividends received and paid, insurance premiums received and paid, fees received and paid for administrative, property and portfolio management services, and interest received and paid. All these transactions were on a normal commercial basis except that some advances may be interest free.

Certain subsidiaries have entered into repurchase agreements with the Company. Securities sold under agreements to repurchase at a fixed price are retained on the subsidiaries' Balance Sheet as the subsidiaries retain substantially all the risks and rewards of ownership. The subsidiaries recognise a liability to record the obligation to the Company for the amount of the cash collateral deposited with the subsidiaries.

Aggregate amounts resulting from transactions with members of the Group that have been included in the profit before tax are disclosed in notes 6 and 7.

	COMPANY	
	2007 $000	2006 $000
Current amounts receivable		
Subsidiaries	**4,434,959**	3,955,888
Current amounts payable		
Subsidiaries	**10,248,919**	7,533,560

(c) Other related party transactions with associates and joint ventures

Transactions between the Group and associates and joint ventures 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.

51. Other related party disclosures (continued)

(c) Other related party transactions with associates and joint ventures (continued)

	CONSOLIDATED 2007 $000	2006 $000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:		
Other revenue received or due and receivable		
Associates	**19,800**	6
Joint venture entities	**12,989**	9,959
Other expenses paid or due and payable		
Associates	**–**	600
Aggregate amounts receivable from, and payable to, each class of related parties at balance date:		
Receivables		
Associates	**10,500**	–
Joint venture entities	**1,546**	971
Payables		
Associates	**–**	–

(d) Other related parties

Contributions to superannuation funds on behalf of employees are disclosed in notes 26(a) and 26(b).

52. Subsequent events

After balance date, the Group and The Royal Automobile Club of Tasmania announced their arrangement for the latter to acquire 30% interest in RACT Insurance ("RACTI"), a wholly owned subsidiary of the Company, for an undisclosed amount. The arrangement is subject to regulatory approvals, with a targeted completion date in the third quarter of the 2007 calendar year.

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

Directors' declaration

1 In the opinion of the directors of Suncorp-Metway Ltd ("the Company"):

(a) the financial statements and notes set out on pages 2 to 151, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their 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*; and

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2(a); and

(c) 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 Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2007.

Signed in accordance with a resolution of the directors:

Dated at Brisbane this 27th August 2007

John D Story
Chairman

John F Mulcahy
Managing Director

Independent auditor's report

to the members of Suncorp-Metway Ltd

Scope

Report on the financial report

We have audited the accompanying financial report of Suncorp-Metway Ltd (the "Company"), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of recognised income and expense, and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 52, and the directors' declaration set out on page 152 of the 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards but that the financial report of the Company does not comply.

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 auditors' 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 and fair presentation of the financial report 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 *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion on the financial report

1. In our opinion:

   (a) the financial report of Suncorp-Metway Ltd is in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

   (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

KPMG

KPMG

Dr Andries B Terblanché
Partner

Brisbane
27 August 2007

Glossary

for the year ended 30 June 2007

Item	Definition
APRA	APRA stands for the Australian Prudential Regulation Authority, which is the prudential regulator of banks, insurance companies, superannuation funds, credit unions, building societies and friendly societies.
AIFRS	Australian Equivalents to International Financial Reporting Standards.
Black-Scholes model	A Black-Scholes model takes as input current prices, length of time until the option expires, an estimate of future volatility, and the so-called risk free rate of return to price equity options.
Dividend yield	Dividend per share divided by the price per share.
Long tail and short tail insurance	Insurance products can be categorised as "short tail" or "long tail". In general terms, this name stems from the length of time (the "tail") that it takes for a claim to be made and settled. For "short tail" insurance products, claims are usually known and settled within 12 months. For "long tail" insurance products, claims may not even be reported within 12 months, and settlements can take many years.
Monte Carlo simulation	A method for iteratively evaluating a deterministic model using sets of random numbers as inputs. This method is often used when the model is complex, nonlinear, or involves more than just a couple of uncertain parameters.
Net interest margin	Net interest income divided by average interest earning assets.
Net interest spread	The difference between the average interest rate on average interest earning assets and the average interest rate on average interest bearing liabilities.
Outstanding claims	All unpaid claims and related claims handling expenses relating to claims incurred prior to the reporting date.
Risk weighted assets	Total of the carrying value of each asset class multiplied by their assigned risk weighting, as defined by APRA.

Balance Sheet as at 30 June 2007

	2007 **$**	2006 $
Non-current assets		
Investments at fair value		
2,000 non-participating shares each fully paid in Suncorp-Metway Ltd	**1,000**	1,000
Non-current liabilities		
Other financial liabilities	**1,000**	1,000
Net assets	**–**	–
Equity		
Initial sum	**–**	–

Notes to the financial reports for the year ended 30 June 2007

1. Significant accounting policies

The financial report of the Trust is a general purpose financial report which has been prepared in accordance with the requirements of Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, the provisions of the Trust Deed dated 23 March 1988 and the *Corporations Act 2001*. These accounting policies have been consistently applied except as disclosed below. The financial report of the Trust also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

Impairment

Impairment occurs when an asset's recoverable value is less than the amount it is recorded at. Assets of the Trust are assessed for indicators of impairment at each reporting date. Indicators include both internal and external factors. If any such impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the Income Statement unless the asset has previously been revalued in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Income Statement.

Calculation of recoverable amount

The recoverable amount of the Group's investments available-for-sale 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.

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through Interest Income.

Reversal of impairment

An impairment loss for an asset is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. The impairment loss is reversed, in the Income Statement, only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded.

Other financial liabilities

Other financial liabilities are designated at fair value upon initial recognition. The fair value of the non-participating shares is assumed to approximate fair value of the liability. Any movements in fair value are recognised in the Income Statement.

2. Income Statement, Statement of Recognised Income and Expense and Statement of Cash Flows

The Trust did not undertake any financial transactions during the year and as a result, no Income Statement, Statement of Recognised Income and Expense or Statement of Cash Flows has been prepared.

3. Financial instruments

The fair value of the non-participating shares as at 30 June 2007 is $1,000 (2006: $1,000). These shares are not readily traded on an organised market in a standardised form.

4. Remuneration of auditors

	2007 $	2006 $
Audit services		
Auditors of the Trust – KPMG		
Audit of the financial report	**300**	300

Fees for services rendered by the Trust's auditor in relation to the statutory audit are borne by Suncorp-Metway Ltd.

Metropolitan Permanent Building Society Trust

Trustee's report for the year ended 30 June 2007

As Trustee of the above Trust we report for the year ended 30 June 2007 that:

- we hold in trust on behalf of the pre-incorporation members 2,000 non-participating shares each fully paid in Suncorp-Metway Ltd;
- no dividends were received in relation to the 2,000 non-participating shares; and
- the Trust Property was held and administered in accordance with the Trust Deed dated 23 March 1988.

Mike Britton
General Manager Corporate Services
Permanent Trustee Australia Limited

Sydney
27 August 2007

Independent auditor's report

to the unit holders of Metropolitan Permanent Building Society Trust

Scope

Report on the financial report

We have audited the accompanying financial report of Metropolitan Permanent Building Society Trust (the "Trust"), which comprises the balance sheet as at 30 June 2007, a description of significant accounting policies and other explanatory notes 1 to 4 and the Trustees' report set out on page 157.

Directors' responsibility for the financial report

The directors of Permanent Trustee Australia Limited ("the Trustee") are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1 the Trustee also states, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies 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 auditors' 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 Trust's preparation and fair presentation of the financial report 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 Trust's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustee, 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 Australian Accounting Standards (including the Australian Accounting Interpretations) and the provisions of the Trust Deed dated 23 March 1988, as amended, a view which is consistent with our understanding of the Trust'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.

Auditor's opinion

In our opinion:

(a) the financial report presents fairly, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the financial position of Metropolitan Permanent Building Society Trust as of 30 June 2007 and of its financial performance and its cash flows for the year then ended.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

Dr Andries B Terblanché
Partner

Brisbane
27 August 2007

Shareholder information

for the year ended 30 June 2007

Annual General Meeting

2.30pm Wednesday 31 October 2007 Meetings Rooms 3 & 4, Mezzanine Level, Brisbane Convention and Exhibition Centre cnr Merivale and Glenelg Streets, South Brisbane

Share Registry

Shareholders can obtain information about their shareholdings by contacting Suncorp's share registry:

Link Market Services Limited
Level 12
300 Queen Street
Brisbane Qld 4000
Mailing address:
PO Box A118,
Sydney South NSW 1234

Telephone:
1300 882 012 (inside Australia)
61 2 8280 7450 (outside Australia)
Facsimile: (02) 9287 0303

Email: suncorp@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

When seeking information shareholders must provide their Securityholder Reference Number (SRN) or their Holder Identification Number (HIN) which are recorded on their shareholder statements or dividend advices.

Change of Address

Shareholders who are issuer sponsored must advise the share registry in writing, quoting their Security Reference Number, previous address and new address. Change of address forms are available via the share registry website or by contacting the share registry.

Shareholders sponsored by a broker (CHESS) should advise their broker in writing of the amended details.

Payment of Dividends

Shareholders who wish to have their dividends paid directly into their bank, building society or credit union account should obtain a direct credit application form from the share registry or via the share registry website.

Dividend Reinvestment Plan

Shareholders can reinvest all or part of their dividends in Suncorp shares, with no brokerage or transaction costs. There is no minimum or maximum limit for participation. Shareholders can participate in the scheme, vary their participation or withdraw from the Dividend Reinvestment Plan at any time. Further information is available on the Suncorp website or by contacting the share registry.

Removal from Annual Report mailing list

Recent legislation amendments mean that companies can now choose to distribute their annual report electronically or provide an "opt-in" option for those shareholders who request a hard copy.

Suncorp will continue to provide hard copy annual reports for shareholders who have elected to receive them and access to online annual reports for those shareholders who receive all their communications via email.

Shareholders no longer wishing to receive a hard copy of the Annual Review (Concise Report) or the Consolidated Financial Statements or who may wish to receive an email notification in future should advise the share registry in writing, by fax, telephone and email, quoting their SRN/HIN, or directly via the share registry website by clicking on Communication Options.

Register your email address

You can register your email address for dividend advices, notices of meeting, notification of availability of annual reports and other shareholder communications. To register your details, go to Share Registry Services on the Suncorp website www.suncorp.com.au which provides a link to the share registry, or directly to the share registry website www.linkmarketservices.com.au where, by using your SRN/HIN and other requested details, you will be able to view details of your shareholding, obtain registry forms and record your own email address.

Stock Exchange Listed Securities

Suncorp's securities listed on the Australian Stock Exchange are:

Ordinary shares (code SUN)

Floating Rate Capital Notes (SUNHB)

Reset Preference shares (SUNPA)

Key dates[1]

Ordinary shares (SUN)

2007
Final dividend

Ex dividend date	30 August
Record date	5 September
Dividend payment	1 October

2008
Interim dividend

Ex dividend date[2]	29 February
Record date	6 March
Dividend payment	1 April

Final dividend

Ex dividend date[2]	29 August
Record date	4 September
Dividend payment	1 October

Floating Rate Capital Notes (SUNHB) (Perpetual subordinated debt)

2007
Final dividend

Ex interest date[2]	9 November
Record date	15 November
Interest payment	30 November

2008

Ex interest date[2]	11 February
Record date	15 February
Interest payment	3 March
Ex interest date[2]	9 May
Record date	15 May
Interest payment	30 May
Ex interest date[2]	9 August
Record date	15 August
Interest payment	1 September

Reset Preference Shares (SUNPA)

2008

Ex dividend date[2]	29 February
Record date	6 March
Dividend payment	14 March
Ex dividend date[2]	29 August
Record date	4 September
Dividend payment	15 September

Results announcements

2008

Half-year results and interim dividend announced	26 February
Annual Results and final dividend announcement	26 August
Annual General Meeting	28 October

Notes:
1 Dates may be subject to change.
2 Subject to ASX confirmation.

Consolidated Financial Report 2007
www.suncorp.com.au

Suncorp-Metway Ltd
ABN 66 010 831 722
08376 01/09/07A