Annual Report 2006

Suncorp-Metway Ltd
ABN 66 010 831 722

Contents

Vision and Values 1
Group Objective 1
Highlights and Shareholder Value 2
5 Year Financial Summary 4
Company Profile 5
Chairman's Letter to Shareholders 6
Managing Director's Letter to Shareholders 10
Group Executive 15
Retail Banking 16
Business Banking 18
General Insurance 20
  Cyclone Larry 23
Wealth Management 24
Our People 26
Our Community 28
Board of Directors 30
Directors' Report 32
  Corporate Governance Statement 33
  Remuneration Report 38
Lead Auditor's Independence Declaration 54
Financial Overview 55
Financial Statements and Notes 56
Shareholder Information 205
Key Dates 209
Glossary 210
Index 212
Contacts 213

Suncorp

Everything under the sun

Front cover and customer story:

Suncorp and valued new customers Phil and Dianne Jauncey have a common goal – to provide the very best products and services to their customers.

With an ambitious five year plan to develop and expand the broccoli market, the Jaunceys were looking for a financial services partner that would provide a single relationship management and offer trade finance and treasury products as well as the more traditional banking and insurance services.

Keen to progress their plan to the next step, the Jaunceys wanted to assess Suncorp's interest in providing the required services. With a rigorous approach to due diligence, the Jaunceys tested Suncorp's capabilities through an extensive process of assessment and reference checking.

For our part, Suncorp saw this as a great opportunity to build a relationship with a company with great expansion potential and financial services needs across our entire business product range. While the Jauncey's previous financial services provider may have been able to offer all of these services, our full ownership position of having everything 'under one roof' won the day. And so began the Suncorp-Jauncey relationship and the development of the broccoli story.

This entrepreneurial Darling Downs farming family have taken the humble vegetable to new heights. The Jaunceys began diversifying their cropping farm into broccoli production in the early 1990s for the quality conscious export markets of Japan, Taiwan and Singapore.

Under the brand name Matilda Fresh Foods, they are now the largest single exporter of broccoli into Japan. Grown on the rich, black soils of the region, the broccoli, 500 acres of it and harvested at its peak, goes straight from the farm to a new processing facility in Toowoomba, with its state-of-the-art equipment.

In 2001 Matilda Fresh Foods added onions for product diversification and have gone on to successfully market this product, which is kiln dried to maintain maximum shelf life in Australian markets and major Asian customers.

Phil and Dianne Jauncey are the second generation owners of the property 'Wando' where all of Matilda Fresh Foods products are grown. The third generation of the family, daughter Sonya and her husband Antony McConville, and son James are now all involved in the management, production and marketing areas of the company.

It's a great success story and Phil enthusiastically discusses his plans for further product diversification and growth – not to mention his equally enthusiastic support of the Suncorp relationship.

Vision

To be the most desirable financial services company in Australia

- For our customers to do business with
- For our employees to work for
- For the community to be associated with
- For our shareholders to invest in

Values

Trust Keeping our promises

Honesty Talking straight, being genuine and ethical

Caring Listening carefully to others, working together to achieve shared goals

Respect Treating individuals with dignity

Fairness Treating people justly and equitably

Courage Taking accountability for results, being up front about mistakes and taking considered risks

Photo above: Young sun safe participants at the Australia Day celebrations, Southbank, Brisbane. Top photo: Business Banking customer Tom Cummins, Managing Director of NPM Group Pty Ltd, and Suncorp's Michael Jacoby, at the company's modular housing manufacturing factory at Garbutt, Townsville.

Group Objective

The Group is on a strategic journey to become a 'successful financial services conglomerate'.

To achieve this, we will need to deliver returns better than our banking, general insurance and wealth management peers while at the same time extracting maximum value from the synergy benefits of our financial services conglomerate model.

To achieve this objective, we have set ourselves the following tasks:

Embedding a customer orientation in everything we do by:

- using our management information systems effectively and deepening our analytical capability to understand our customer needs
- designing compelling and targeted customer value propositions by matching our customers' needs to product, service, process and relationship management solutions

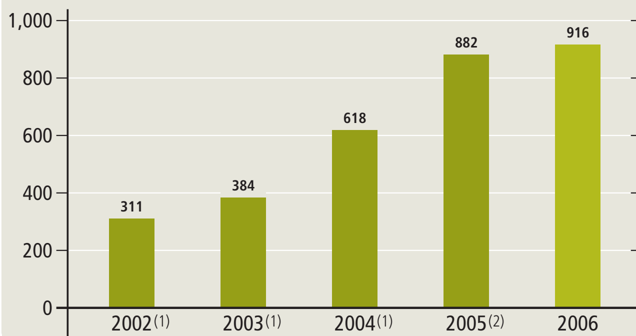
Optimising the inherent advantages of our unique business model by:

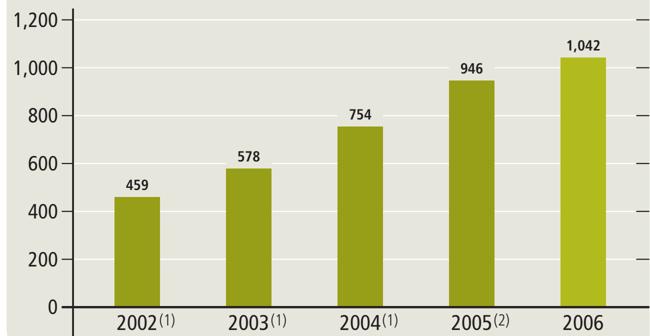
- pursuing logical cross sell opportunities within our existing customer base
- striving to achieve best practice customer cross product holdings as well as attrition, retention and usage rates
- targeting those customers and segments who have a preference to deal with a single financial institution

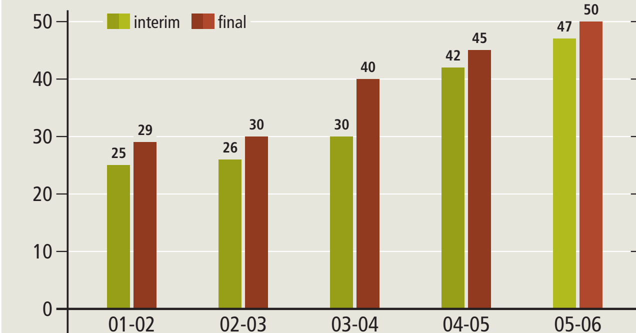
Maintaining a competitively advantaged cost position by:

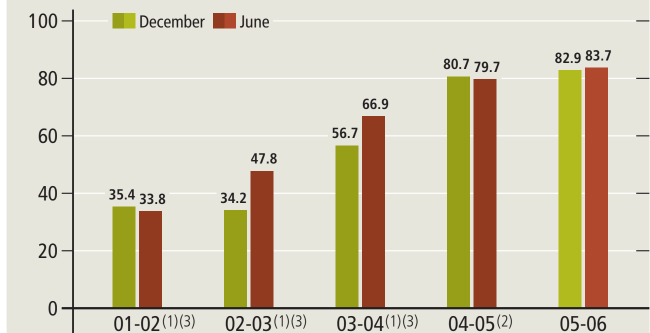
- consolidating appropriate support activities across the Group and therefore achieving lower unit costs
- achieving economies of scale through shared processing and call centre platforms where possible
- simplifying key processes across the Group
- embedding an active portfolio management discipline

Highlights & Shareholder Value









Notes

(1) Comparatives prepared under previous GAAP.

(2) Comparatives have been updated to reflect AIFRS, excluding adjustments which are subject to transitional arrangements.

(3) Comparatives represent cash earnings per share diluted.

Strategic Levers

Suncorp continues to make good progress delivering on six key strategic levers – customer focus, optimising distributional channels, high performing teams, execution excellence, group synergies, profitable market growth. *(pp 12)*

Cyclone Larry

We were the first insurer on the scene when the cyclone struck on 20 March. We have dealt with over 7,800 claims, assisted with the re-building and have opened a customer service centre in Innisfail. *(pp 7,14,22,23)*

Retail Branches

Many of our 'new look' branches with their customer-focused design and layout are already experiencing revenue growth. *(pp 17)*

Suncorp Desktop Program

Program commenced in April 2006 to upgrade or replace over 10,000 PCs and laptops Group-wide with Windows XP and MS Office 2003. *(pp 27)*

↗ **10.1%**
UNDERLYING PROFIT
$1,042m

↗ **3.9%**
NET PROFIT AFTER TAX
$916m

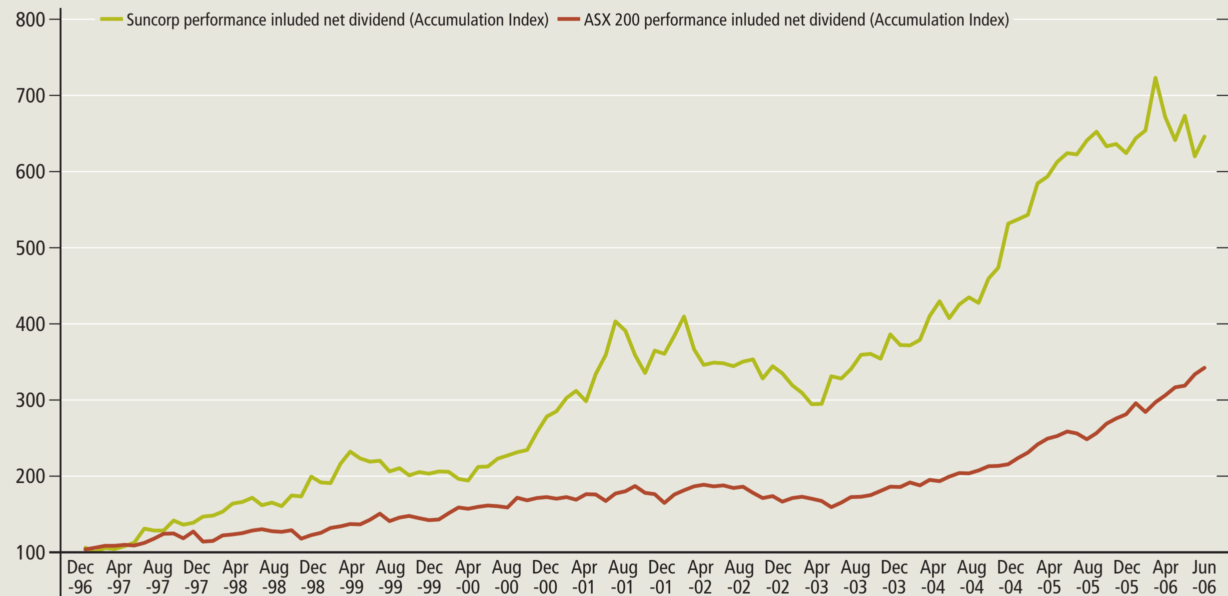
↗ **3.9%**
EARNINGS PER SHARE
$1.67

↗ **21%**
RETURN ON EQUITY

↗ **97 cents**
FULL YEAR DIVIDEND
FINAL ORDINARY DIVIDEND **50c**

Stock Performance: Suncorp Versus ASX 200

– Return Index Including Net Dividends = Accumulation Index (both indices rebased at 100 at 30 November 1996)



5 Year Financial Summary

		AIFRS[1]			GAAP[1]	
		2006	2005	2004	2003	2002
Financial performance						
Banking						
Net interest income	($m)	848	786	656	592	550
Net fees and commissions	($m)	129	129	154	139	111
General Insurance						
Premium revenue	($m)	2,644	2,587	2,423	2,231	2,018
Investment revenue	($m)	473	515	276	292	173
Claims expense	($m)	1,948	2,085	1,751	1,937	1,697
Wealth Management						
Life insurance premium revenue	($m)	136	113	104	86	76
Life insurance investment revenue	($m)	805	586	443	117	27
Life insurance claims expense	($m)	78	73	71	60	58
Wealth Management policy owners' interests	($m)	72	63	41	11	(4)
Group						
Expenses	($m)	1,431	1,260	1,238	1,151	1,126
Impairment losses on loans and advances	($m)	31	27	49	49	39
Profit before tax	($m)	1,346	1,377	1,031	612	465
Profit attributable to equity holders of the parent	($m)	916	882	618	384	311
Contributions to profit before tax						
Banking	($m)	506	454	371	318	293
General Insurance	($m)	691	660	465	233	110
Wealth Management[2]	($m)	153	238	151	52	54
Other	($m)	(4)	25	44	9	8
		1,346	1,377	1,031	612	465
Financial position						
Total assets	($m)	57,369	52,488	43,299	38,434	35,435
- Investment securities - general insurance	($m)	5,109	5,280	5,118	4,755	4,375
- Investment securities - life insurance	($m)	5,796	4,649	3,840	3,133	3,161
- Loans, advances and other receivables	($m)	39,633	35,771	28,907	24,459	22,955
Total liabilities	($m)	52,936	47,227	38,959	34,787	32,073
- Deposits and short term borrowings	($m)	27,683	27,157	24,287	21,579	18,176
- Outstanding claims and unearned premiums liabilities	($m)	5,672	5,538	5,187	5,052	4,591
- Life insurance gross policy liabilities	($m)	3,906	3,244	2,822	2,661	2,780
- Securitisation liabilities	($m)	5,700	3,906	-	-	-
- Bonds, notes and long term borrowings	($m)	5,560	4,468	3,925	2,710	3,952
Total equity	($m)	4,433	5,261	4,340	3,647	3,362
Shareholder summary						
Dividends per ordinary share	(cents)	97.0	87.0	70.0	56.0	54.0
Payout ratio (basic)	(%)	59.1	55.4	63.3	81.3	96.6
Weighted average number of shares (basic)	(m)	549.8	539.5	533.9	528.0	514.2
Net tangible asset backing per share (basic)	($)	5.98	5.83	5.15	4.44	3.83
Share price at end of period	($)	19.35	20.11	14.20	11.60	12.31
Performance ratios						
Earnings per share (diluted)	(cents)	166.56	160.39	112.70	69.74	57.87
Return on average shareholders' equity (basic)	(%)	21.05	21.60	17.57	13.35	13.54
Return on average total assets	(%)	1.82	2.01	1.65	1.13	1.06
Productivity						
Group efficiency ratio	(%)	26.2	24.2	25.6	23.9	26.5

Notes

(1) Amounts for years 2002 to 2004 were calculated in accordance with previous Australian GAAP. Amounts for 2005 and 2006 have been calculated in accordance with Australian equivalents to IFRS ('AIFRS'), however transitional arrangements apply to the 2005 year. For the impact of transition to AIFRS see the notes to the financial statements.

(2) For 2004 and 2005, the Wealth Management result includes the impact of consolidating managed schemes (impact 2005: $82 million, 2004: $44 million).

Company Profile

Suncorp is one of Australia's 25 largest listed companies, with a market capitalisation of around $11 billion, 179,000 shareholders and 556 million shares on issue. Our head office is in Brisbane, Queensland.

We are Australia's sixth largest bank and the fourth largest insurance group with assets of more than $54 billion and $13 billion funds under management. There is over 8,800 employees nationally.

The Group also has a 50 percent share in RACQ Insurance Limited and RAA Insurance Limited, with the major motor clubs, RACQ (Qld) and RAA (SA), and RACT Insurance (100 %) in Tasmania.

The main businesses are retail and business banking, general insurance, life insurance, superannuation and funds management with a focus on retail consumers and small to medium businesses. We have 4.3 million customers across Australia and strong market shares in most of our insurance business classes including home, motor and Compulsory Third Party.

Our two brands are Suncorp and GIO, with GIO being our main insurance brand outside of Queensland.

The Suncorp Group was formed in December 1996 when the Queensland Government owned Suncorp and Queensland Industry Development Corporation (QIDC) entities were merged into the publicly listed company Metway Bank to create a new allfinanz group. In July 2001 Suncorp acquired AMP's Australian general insurance interests, including GIO, which substantially increased the Group's annual premium income and doubled the number of general insurance customers.

However, the Group's ancestry dates from 1902, when the Queensland Government established the Agricultural Bank. The Ag Bank ultimately became part of the QIDC, which was formed in 1986 primarily as a rural financier. Suncorp started business in 1916 as the State Accident Insurance Office and grew into the SGIO before becoming Suncorp, and Metway Bank was first established in 1959 as the Metropolitan Permanent Building society before converting to bank status in 1988.

Organisational structure: Our service and product delivery framework

With direction from:

Board of Directors — Board Committees

CEO

Through our Business lines and Corporate Centre:

Group Executive Business Banking	Group Executive Retail Banking and Wealth Management	Group Executive General Insurance Personal Lines	Group Executive General Insurance Commercial Lines	CFO Chief Financial Office	Group Executive Group Strategy	Group Executive People, Technology and Marketing
Suncorp provides:						
Property development finance Property investment finance Project and structured finance International trade finance Agribusiness financial services Commercial banking services Leasing	Home and personal loans Transaction, savings and investment accounts Credit cards Foreign currency services Branch, ATM and internet facilities Superannuation (personal and employer sponsored) Managed investments Life insurance Financial planning and advice	Home insurance Motor insurance Compulsory Third Party insurance	Commercial insurance Workers' compensation	Treasury Services Risk Accounting & Tax Actuarial Compliance & Assurance Regulatory Affairs Legal Corporate Secretary Investor Relations	Strategic Procurement Services Corporate Projects Group Strategy & Corporate Development Communications	People & Performance Group Marketing Strategy Architecture & Security Infrastructure Services IT Client & Internal Services Group Management Information Joint Venture Relationships

To our stakeholders:

Shareholders | Customers | Employees | Community

Chairman's

Letter to Shareholders

'I am pleased to report a very satisfactory result. This has been achieved because Suncorp has remained firm to its business fundamentals...'
John Story, Chairman

Dear Shareholder,
The year under review has been very challenging. The markets for each of Suncorp's lines of business have been characterised by extremely competitive and highly variable conditions. Under these circumstances, I am pleased to report a very satisfactory result. This has been achieved because Suncorp has remained firm to its business fundamentals, taking a conservative and disciplined approach to pricing, capital, risk and credit standards in the face of intense competition, particularly on our home ground in Queensland. Pleasingly, our market shares remain relatively stable and, during the last few months, the Company has witnessed positive momentum as we have moved into the new financial year. The Company is in a strong position.

Financial performance summary

Group net profit after tax was up 3.9% to $916 million for the year to 30 June 2006. Pre-tax underlying profit, which disregards investment returns on the funds held in our general insurance and wealth management businesses and one-off items, grew by 10.1% to $1,042 million. This is the first occasion on which underlying profit has exceeded $1 billion.

The results are summarised in the table below.

	Year ended		
	June 2006 $m	June 2005 $m	Change %
Profit Overview			
Banking	506	454	11.5
General Insurance	691	660	4.7
Wealth Management	81	93	(12.9)
LJ Hooker & Other	13	8	62.5
Consolidation	(13)	(10)	30.0
Profit before tax	**1,278**	**1,205**	**6.1**
Tax	(362)	(323)	12.1
Net profit	**916**	**882**	**3.9**
Underlying profit	**1,042**	**946**	**10.1**

In his accompanying letter to you, John Mulcahy will report in greater detail on the individual lines of business. I would, however, like to point out some specific matters.

In **Banking**, our total lending for the year grew by 11.2%. The fact that this was below industry growth rates for the year has been the subject of some concern on the part of market analysts. In a highly competitive market, management's focus, which has the full support of the Board, has been to drive profitable growth by responding in a controlled manner to the dynamics of a rapidly changing environment. Our approach has been to hold a strict discipline around pricing, credit standards and return on capital. Management has proactively managed the price and volume mix of our banking book and kept a strict control of costs.

The outcome was growth of net profit before tax of 11.5%, with a cost to income ratio of 46.1% and a return on equity of 18%. Suncorp has responded appropriately to highly competitive conditions to maintain both the strength of its banking franchise and sound profitable growth.

In **General Insurance**, management's focus has again been on driving profitable growth by maintaining discipline around pricing and risk. Total gross written premium (GWP) increased by a respectable 2.7% for the full year. This increase, however, accommodated a reduction in premium rates across the sizeable compulsory third party component of our business. These reductions in premiums, which we have been able to pass on to our customers, reflect the improving claims experience emerging as a consequence of the legislative and other reforms occurring within the industry. GWP growth across the balance of our portfolio was 3.9% for the full year.

Through the course of the year, there has been significant improvement in claims experience flowing from the implementation of legislative reforms in the areas of liability and negligence. These reforms have had a significant impact on reducing claims costs and in curtailing escalating personal injury awards. As a consequence of this experience, we have been able to bring a significant release into this year's result from the provisions set aside in earlier years. If this claims experience, which is significantly favourable to the prudential approach taken by our actuaries in earlier years, is maintained, and in the absence of any unexpected events or circumstances, we would expect to make further significant releases in the 2007 and 2008 financial years.

Our company, together with other general insurers, is working closely with the Innisfail community in rebuilding after Cyclone Larry. We have received some 7,800 claims and the financial impact is significant. Cyclone Larry may be classified, in insurance terms, as 'an unusual event' and our financial result would have been significantly better if it had not occurred. The important factor is, however, that this unusual event did occur, and has been accommodated and absorbed within a very strong result for our general insurance business. This demonstrates the underlying strength of the Group.

In **Wealth Management**, the pre-tax profit was $81 million, a reduction of 12.1% on the previous year. Underlying profit, which we believe to be a better indicator, increased by 17.4%. New business sales were strong, up 18.8%, supported by a sustained confidence in equity markets and changes to taxation legislation applying to superannuation. Throughout the year, our investment products regularly appeared in top quartile positions, with our Balanced Portfolio and Australian Equities Funds achieving first quartile over eight consecutive years to 30 June 2006.

Dividend

The strong Group profit result has enabled the Board to declare a final ordinary dividend of 50 cents per share, fully franked, taking the full year ordinary dividend to 97 cents per share, fully franked. This is an increase of 10 cents per share over last year, or 11.5%, and again delivers on our commitment to provide consistently increasing dividends to our shareholders.

Earnings per share increased 3.8% to a record 166.6 cents for the year, and the full year dividend represented a payout ratio of 59.1%.

Capital management

Last year, we announced a special dividend of 75 cents per share, fully franked, which was paid in October 2005 at the same time as the final dividend. The continuing strength of our balance sheet will now allow us to embark on the next phase of our capital management program. The Company is currently considering a share buy-back in the final quarter of this calendar year. A buy-back would reduce the number of shares on issue, thereby increasing the earnings per share, benefiting all shareholders. Further information will be provided to you as these plans are finalised.

Regulatory changes

We are operating in an environment of constant regulatory change. It is a continuing challenge for the Board and management to maintain an appropriate balance between meeting our requirements for compliance and focusing on the operational performance of the Company.

The further prudential reforms proposed by APRA are now in the final stages of implementation. This includes changes to governance guidelines, risk and financial reporting, fit and proper tests for senior managers and outsourcing. The Company has actively participated in direct and industry negotiations with APRA on the final versions, and we are well prepared for the 1 October 2006 implementation.

We have also commented on, and keenly followed, the Federal Government's Red Tape Review, its recommendations and its responses to date, including proposed refinements to the financial services reform regime and improvements to Corporations Act requirements for shareholders' meetings. We support this initiative and look forward to its implementation.

Suncorp's regulatory agenda also includes ongoing work to comply with Basel II framework. Within our bank, this has involved implementing vastly improved risk management systems and processes. We remain confident that compliance will be achieved across our operations by the prescribed date of January 2008 and it remains our objective, not only to meet our regulatory obligations, but to derive operational and strategic benefits as a consequence.

We are also heavily involved in the development of systems and processes to comply with proposed new anti-money laundering laws.

It is essential that all existing and proposed regulatory requirements be subject to regular and robust review to establish their relevance and continued worth for our key shareholder, customer, employee and community stakeholders.

Financial reporting

Our financial reporting under IFRS (International Financial Reporting Standards) continues to be a significant and costly burden, and the rapidly increasing size of our annual report each year, with 30 additional pages for the 2006 edition, is testimony to the amount of work required in its

'It is essential that all existing and proposed regulatory requirements be subject to regular and robust review to establish their relevance and continued worth for our key shareholder, customer, employee and community stakeholders.'

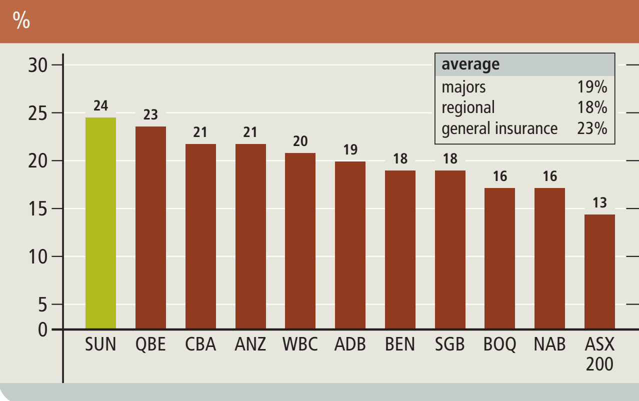
preparation. The outcome is a highly complex document, and I would suggest that much of the information is neither relevant nor meaningful to our shareholders. As this document loses its usefulness as a reporting medium to shareholders, the challenge to boards is to continue to provide reliable and meaningful financial reporting to their shareholders. We will continue to focus on these challenges. It has been pleasing to see many of our shareholders responding positively to our call to reduce any unnecessary printing of copies of the full annual report and therefore helping both our costs and the environment. At the same time we continue to make available an easy to navigate interactive version of the full report for downloading on our website.

Ten years on

December 2006 will represent an important milestone in our history. It will be 10 years since the implementation of the merger of three Queensland financial institutions to form Suncorp-Metway Limited. Today, Suncorp is an Australian company, but with its headquarters in Queensland. It has a market capitalisation of approximately $11 billion, and appears within the top 25 listed companies on the Australian Stock Exchange. It is Australia's sixth largest bank and fourth largest general insurance group. It has over 4.3 million customers nationally, more than 8,800 staff and approximately 179,000 shareholders.

We have moved well beyond any necessity to justify the original merger decision. It is, however, satisfying to note that the annualised total shareholder return (TSR) for a Suncorp shareholder over the 10 year period was 24%. This return exceeds that of each of the major and regional banks and the only other Australian insurer listed over that period. It substantially exceeds the ASX 200 return of 13%.

As a diversified financial services group, offering banking, insurance and wealth management products and services, Suncorp has delivered on the



Source: IRESS – 4 July 2006
The TSRS assume a base of 100 shares and that dividends are reinvested as shares at the time the dividend is paid.

undertakings at the time of merger. With the benefit of its unique business model, and the implementation of the strategy developed by John Mulcahy and his strong management team, the Board is confident of Suncorp's ongoing progress and success.

Outlook

We remain positive about the economy and your Company's growth prospects.

At the macro level, the economy continues to be sound despite increasing inflationary pressures. We expect that competition will remain strong across all businesses and geographies, as the economy and growth slow.

While we do not expect equity markets will continue to deliver the high returns achieved over the past three years, we again anticipate another strong group operating performance for the year ahead that will allow us to achieve ordinary dividend growth of at least 10% for the year.

Acknowledgements

In order to meet our regulatory requirements for compliance, the Board has organised its affairs so as to handle all compliance and regulatory matters within the committee system. This ensures that our Board meetings are focused on matters of a strategic and performance orientation. A consequence is a heavy workload for the directors. It has been another exceptionally busy year and I thank each member for their continued support.

My thanks to John Mulcahy and his dedicated and committed management team and the staff who have performed so well in a very vigorous environment. Their contribution is greatly appreciated. Finally, we thank you, our shareholders, for your continuing support.

John Story
Chairman

Managing Director's

Letter to Shareholders

Photographed in Brisbane Square –
a brand new environment providing a stimulating
and collaborative workplace for Suncorp employees.

'This year marks the 10th anniversary of the merger of Suncorp, Metway Bank and QIDC. The Suncorp Group has gone from strength to strength since then and I am extremely proud to have played some part in its achievements over that time.'

John Mulcahy, Managing Director

Dear Shareholder,

It is my pleasure to announce the financial results for your Company for 2006. We have achieved another strong result, amidst an increasingly competitive environment which has presented us with both challenges and opportunity. Suncorp's performance has been underpinned by a disciplined approach to our business and by not compromising on the fundamentals.

We have been disciplined around credit quality and risk in relation to the returns we expect on our capital investments, and in our cost management. Our focus has been on continued profitable growth and maintaining strong returns to our shareholders.

2006 annual result

Suncorp's net profit for the year was $916 million, an increase of 3.9% on June 2005. Pre-tax underlying profit (which excludes goodwill, one-off gains and earnings on shareholder funds) was a record $1.042 billion, up by 10.1% on the previous year.

This year marks the 10th anniversary of the merger of Suncorp, Metway Bank and QIDC. The Suncorp Group has gone from strength to strength since then and I am extremely proud to have played some part in its achievements over that time.

However, our success is really due to the outstanding efforts and hard work of our senior leadership team, their teams, and all our employees. I would like to thank everyone at Suncorp for their contribution and dedication – in particular for the way they have responded to the challenges we faced during the last year.

Lines of business performance

Suncorp's 2006 financial result was achieved through continued solid performances from each of our business lines.

The **Banking** division reported an 11.5% uplift in profit before tax to $506 million for the full year.

	Year ended		
	2006 $m	2005 $m	Change %
Banking profit			
Net interest income	848	786	7.9
Other operating income	149	148	0.7
Operating expenses	(460)	(452)	1.8
Bad and doubtful debts expense	(31)	(28)	10.7
Pre-tax profit	**506**	**454**	**11.5**

During the year, the Bank's focus has been on driving profitable growth through product innovation and packaging, competitive pricing, and cost and credit discipline, while capitalising on the advantages of our direct distribution franchise.

As forecast, profit margins contracted in the second half as lending volumes have built, but generally continue to compare favourably with our peers.

Lending growth, while slightly below system for the period, has been progressively building through the second half and home lending is now on par with industry growth and on a positive trajectory.

Retail deposits continue to out-perform system despite intense competition.

We continue to improve our bank efficiency and our asset quality remains sound.

In **General Insurance**, profitability is strong at $691 million for the full year, driven by an uplift in risks in force, material releases from our long tail classes and the first realised benefits of our claims cost reduction project. gross written premium (GWP) increased by 3.9%, excluding Compulsory Third Party (CTP), where the benefits of reduced premiums (due to tort law reforms) continue to be passed on to our customers.

Here, as in Banking, our focus remains on driving profitable growth and maintaining discipline around price and risk, while at the same time seeking efficiencies in the management of claims processes.

	Year ended		
	2006 $m	2005 $m	Change %
General Insurance profit			
Net earned premium	2,527	2,471	2.3
Net incurred claims	(1,633)	(1,769)	(7.7)
Operating expenses	(669)	(575)	16.3
Re-insurance revenue	5	4	25.0
Investment income, technical provisions	241	313	23.0
Insurance Trading Result	**471**	**444**	**6.1**
Other income	149	154	(3.2)
Investment income, shareholder funds	232	202	14.8
Capital funding costs and other expenses	(161)	(140)	15.0
Pre-tax profit	**691**	**660**	**4.7**

Our Insurance business comprises two main classes of insurance. Short tail refers to those insurance classes where claims are generally settled in less than a year, eg. home, contents and motor insurance. Our long tail classes generally take over a year to settle (typically five years) eg. workers' compensation and CTP.

Suncorp's disciplined approach to growing our business is demonstrated in our short tail trading result, which has improved in the second half (excluding Cyclone Larry).

The conservative nature of our provisioning, combined with continuing favourable claims experiences, has again resulted in prior year releases from our long tail business. The extent of these releases and their positive impact on our insurance trading result for the second half, prompted a profit update statement to the market in early August.

Wealth Management contributed profit before tax of $81 million for the year. Underlying profit in the Wealth Management business, which excludes one-off payments and the impact of investment earnings, increased by 17.4% to $54 million. Strong sales growth continues to be a feature of the Wealth portfolio, increasing by 18.8% to $782 million.

Funds under administration increased by 19.8% to $6.2 billion while funds under management totalled $13.0 billion, increasing by 9.3% for the year.

	Year ended		
	2006 $m	2005 $m	Change %
Wealth Management profit*			
Life company	66	62	6.5
Funds management	15	31	(51.6)
Pre-tax profit	**81**	**93**	**(12.9)**

* Excluding Life Insurance policy owners' interests

Delivering to our stakeholders

Suncorp's strategy and business model is based on the continued strong performance of our three lines of business. In 2006, we have continued to demonstrate our ability to grow these businesses profitably and to compete effectively despite the increasingly tough environment.

However, at Suncorp we measure our performance against a number of criteria in addition to our financial results. To achieve our goal of being Australia's most desirable financial services company, it's important that we provide benefits to each of our four key stakeholders – our customers, our employees, our community and our shareholders. I would like to provide a brief update on our progress over the past 12 months.

Customers

Customer focus remains a key priority for the organisation. Providing outstanding service and designing financial solutions that meet more of our customers' needs is an increasingly important differentiator for Suncorp in a fiercely competitive market. Our business model provides us with unique insight into our customers' lifecycles and, over the past year, we have worked hard to better understand our customers and provide even more tailored solutions.

We have invested significantly in training our people in customer-based design principles. This process involves customers in each phase of product development to ensure that we are effectively meeting their needs. We continue to provide sales and service training to our Retail Banking and General Insurance employees via our inFOCUS program, embedding a customer focused culture across the organisation.

Meeting more of our customers' needs

We have sought ways to leverage our knowledge of our customers to offer them the full range of financial products available with Suncorp. For instance, our General Insurance call centre consultants are able to identify a customer's need for a banking product. They can immediately refer this customer to our Banking call centre, where the consultant conducts a brief, but thorough, needs assessment. We can then immediately fulfil the customer's requirements. This level of service is unique to Suncorp given our access to the full range of financial products, and the number of Suncorp products held by our customers continues to lead the market.

We have completed a number of successful pilots designed to better understand customers' financial needs and to quickly and efficiently assist them. While some of these pilots were impacted by the resourcing required to respond to Cyclone Larry, our sales of business banking products to our commercial insurance customers exceeded expectations. As a result of our X-fire project, products per customer in our intermediary channel grew during the year. We also continue to achieve excellent returns from our core sales of bundled products eg. car insurance with car loans.

Our distribution channels

Over the last year, we have focused on optimising our branches. Suncorp has taken a very considered, strategic approach to building our network. Unlike some of our competitors, we don't have a large number of legacy retail outlets we'd like to get out of, but can't. Instead, we have worked on deriving the greatest value from our existing branches, with several relocations and refurbishments.

Our 'new look' branches, with their customer-focused design and layout, provide a more enjoyable and pleasant environment for employees and customers. We have also improved our Internet banking services with particular focus on security and accessibility.

Customer service

A key differentiator for Suncorp continues to be our commitment to customer service. Our employees typify a positive, Queensland 'can do' attitude. Extensive customer research has demonstrated that this is something that is highly valued. We believe that we haven't been active enough about promoting the great service our people provide and the many examples of how they go the extra mile for our customers each and every day. We know that there's still plenty of room for improvement, but we are actively promoting the things we do well and using them to build skills across the Group.

This has helped ensure that Suncorp continues to outperform the major banks in terms of customer satisfaction. We continue to make gains in our insurance business and this will be a primary area of focus in 2007.

Each of the customer initiatives outlined above will be critical in ensuring Suncorp continues to stand out in an increasingly crowded financial services market.

Our People

I am a firm believer that the success of any organisation is all about its people. Suncorp is no exception. As I've mentioned before, our people set us apart. However, in an increasingly tight labour market, it's important that we continue to seek ways to attract, retain and develop the best people, and build a strong culture.

The fact that Suncorp has three lines of business, plus a dynamic corporate centre, means that we are able to provide diverse career opportunities for our employees.

This helps us to grow our leaders from within and leverage execution excellence from one area of the business to another.

In May this year, we restructured our senior executive team. This was designed to better align our structure with the areas of greatest growth, ensure we capture all the synergies available from like business areas and customer bases, and to broaden the skills and career opportunities for our most senior leaders.

At Suncorp, we also focus heavily on the training and development of our people. We've undertaken a number of leadership development programs and introduced more flexible hiring and working arrangements to encourage mature workers back into the workforce, encourage women back from maternity leave on terms that meet both business and family needs, and significantly improved our graduate recruitment program.

We are seeing positive results from all these initiatives with our third consecutive lift in employee engagement. However, there is still more work to do. Key areas of focus in the year ahead include developing the skills of our more junior managers and equipping our leaders with the skills to help their teams reach their full potential.

We also continued the roll out of our Workplace Change and desktop programs designed to provide stimulating and collaborative workspaces for our people, as well as the technology they require to do their jobs. Earlier this year, we completed the upgrade of our Pitt Street business centre in Sydney. In 2006 we expect to take up residence in the new Brisbane Square Building, as well as Suncorp Place in George Street, Sydney, which will prominently showcase the Suncorp brand in the CBD. The desktop program, updating all our employees' PCs, will also be completed in the first half of 2007.

At Suncorp, we acknowledge that work isn't everything. It is important for our employees to manage and balance the challenges of work and life. We have a number of policies such as flexible work arrangements, parental leave, counselling programs and child care referrals that make it easier for employees to be productive at work while maintaining life outside the office. Our Family Day program also encourages work/life balance, providing an informal networking opportunity for employees. They're also lots of fun and the kids love them!

Community

We firmly believe that as good corporate citizens, Suncorp should be actively involved in the communities we are part of. We do this in a number of ways.

Environment

Environmental considerations are critical to our community. In December 2005, we launched our ethanol policy requiring all Company fleet cars to use ethanol replacement fuel (E10) and thereby reduce emissions into the environment.

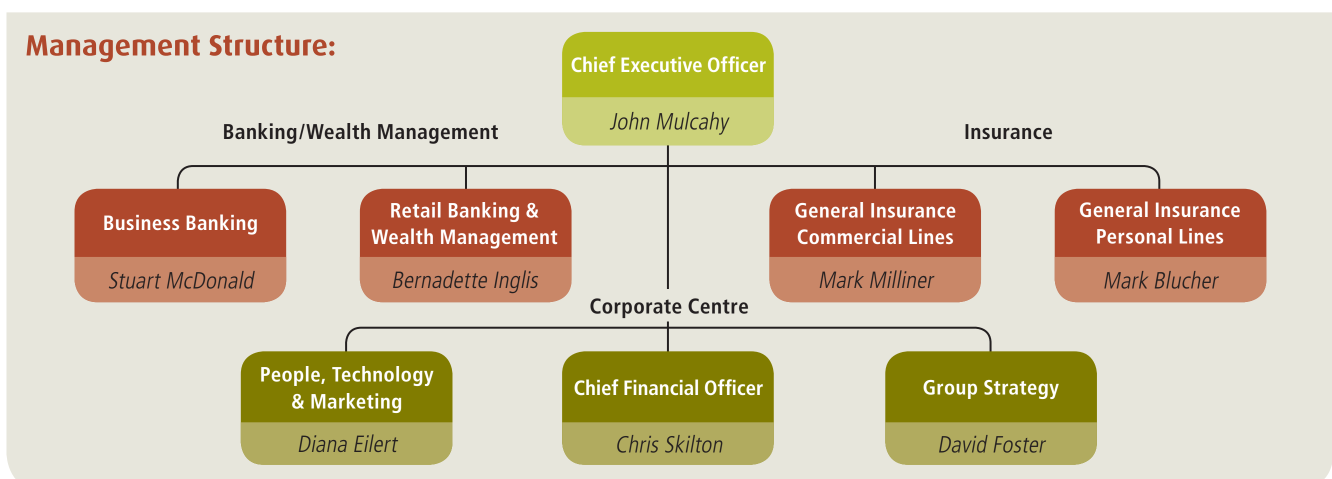
Suncorp is also closely associated with several irrigation and water conservation initiatives including Nu Water, a project designed to recycle waste water back up to the Darling Downs irrigators.

Sponsorships

Suncorp has a long history of supporting the community through our corporate sponsorships. Our Skin Cancer Initiative in Queensland has helped raise awareness about the risk and prevention of this disease. Together with the Queensland Institute of Medical Research (QIMR) we have raised more than $600,000 which has also assisted in treatment and research into a cure for skin cancer.

Suncorp has supported the Hear & Say Centre since 1994. The Queensland-wide charity teaches deaf or hearing impaired children and infants to listen, speak and integrate into the hearing community. We have raised over $150,000 for this charity over the past year through our annual Butterfly Appeal and the 2006 Sunday Mail Suncorp Bridge to Brisbane fun run.

We have continued our close association with rugby union through our sponsorship of the Wallabies and the Queensland Reds. However, our primary focus has been taking rugby to local communities at a grass roots level, with coaching clinics for boys and girls in rural and regional areas. We believe that rugby union helps promote good teamwork and instils young people with the same values that are now firmly embedded across Suncorp – Fairness, Courage, Honesty, Caring, Respect and Trust.



We also sponsor the Suncorp Queenslander of the Year Awards, the Sydney Festival Domain Concert series and numerous other charity and community organisations.

Suncorp's employees are consistently generous in donating time and money to our sponsorships. We have in place a day's paid volunteer leave for every staff member to give something back to the communities we are part of. Participation in this program has grown to almost 50% in just two years and is highly valued among our employees. Stories of the work our employees are doing, and the difference they have made to people's lives, are truly inspiring.

Shareholders

While we continue to deliver benefits to all our stakeholders, in 2006 we have again delivered a strong result for our shareholders. As a result, and as our Chairman has mentioned, we declared a 50 cent, fully franked, final ordinary dividend, bringing the full year ordinary dividend to 97 cents.

The strength of our capital position means that we're able to return some of our surplus equity to shareholders. We are considering doing this through a share buy-back in the December 2006 quarter. This would be accompanied by subordinated debt transactions in General Insurance and the Bank, and an issue of a hybrid instrument by the Bank.

I am delighted to be able to reward our shareholders in this manner and thank you for your ongoing support.

Cyclone Larry

I would like to speak briefly about Suncorp's response to Cyclone Larry which devastated parts of North Queensland in March this year. It demonstrates the way our people collaborate to benefit our customers and our community.

When the cyclone struck in the early hours of 20 March, many of our people in the area suffered extensive damage to their own properties or were forced to evacuate family members. Despite this, Suncorp was the first insurer in the area helping our customers.

Our people worked tirelessly to assist our customers, despite road closures, flooding and other impediments, and have continued to do so ever since.

We are dealing with over 7,800 claims, assisting with the re-building with our partner, Bovis Lend Lease, and we opened a customer service centre in Innisfail so that customers can speak directly to their case managers about their claims. We also have dedicated teams behind the scenes to ensure we process these claims as efficiently and sensitively as possible. In the first days after the cyclone hit, Suncorp employees even provided food, shelter and solace for people in Innisfail.

If there was ever a reason for us to hold our heads high and be proud to be part of this Company, Suncorp's response to Cyclone Larry is that reason.

Outlook

While the economy remains sound, tightening monetary policy, oil prices, inflationary pressures and increased competition on all fronts will continue to present challenges in the year ahead. We expect that rate increases are likely to impact lending, particularly home lending.

In **Banking** we will continue to manage the business for profitable growth while maintaining close control of our expenses. Given no major changes in market conditions, we would expect to grow the banking profit, before tax and bad debts, by approximately 10%.

In our **General Insurance** business, we expect to realise significant benefits from our claims cost reduction program and while we anticipate that the potential size of reserve releases will moderate over time, we anticipate that they will contribute materially to our insurance profit in 2007 and 2008. We also expect to continue to grow our short tail business. However, as premium reductions in our CTP business continue to flow to our customers as a result of tort reforms, growth will be offset in some areas of the business and result in a relatively flat Gross Written Premium (GWP) for the full year. We therefore expect an Insurance Trading Ratio (ITR) for 2007 and 2008 in the 16-19% range, excluding any major weather events, which is above our long term outlook of 11-14%.

In **Wealth Management,** we expect to continue to grow funds under administration by leveraging our Banking and Insurance customer bases. Increased competition is likely to cause some margin compression but we expect to achieve underlying profit growth (excluding investment returns on shareholder funds) of approximately 10% for the year.

To conclude, while we do not expect investment returns at the high levels we have seen in recent years, at **Group** level we do expect another strong result for Suncorp in 2007, with ordinary dividend growth of at least 10% for the year.

Conclusion

Suncorp has delivered another strong result in 2006 despite increasing competitive pressures. Our strategy and business model, together with our fantastic team of people, means we are well placed to continue to build on our unique strengths. Critical to this is ensuring that we continue to operate three strong stand-alone lines of business, and that we maximise the unique advantages of being a diversified financial services company.

Over the next year, we will continue to focus on customer service and solutions, building high performing teams and capable leaders, and working collaboratively to deliver on our goals.

Suncorp has a proud history of strong performance and excellent returns to our shareholders. This has been clearly demonstrated over the last 10 years. We are in this business for the long haul and we have built all the foundations we need to ensure we continue to be successful over the next 10 years and beyond.

Thank you again for your support and loyalty.

Regards,

John Mulcahy
Managing Director and CEO

Group Executive

From top, left to right: John Mulcahy , Mark Blucher , Diana Eilert , David Foster, Bernadette Inglis, Stuart McDonald , Mark Milliner, Chris Skilton

John F Mulcahy
PhD (Civil Engineering), BE (First Class Hons)
Managing Director

John Mulcahy joined Suncorp as Chief Executive Officer on 6 January 2003. He had previously held a number of executive roles at the Commonwealth Bank since 1995. John ranks as one of the most widely experienced financial services executives in Australia. He also has broad management experience, having served as Chief Executive of Lend Lease Property Investment Services and Chief Executive of Civil & Civic prior to 1995. In March 2006, John was appointed by the Federal Government to the Future Fund Board of Guardians.

Mark Blucher
AFin
Group Executive General Insurance - Personal Lines

Mark Blucher was recently appointed Group Executive General Insurance - Personal Lines, recognising the growth of Suncorp's general insurance business. He holds full responsibility for the profit and loss outcome, product and customer management, and sales and service functions. Prior roles for Mark included Group Executive Retail Banking Customers, accountable for the retail banking business, and Group General Manager Retail Distribution, accountable for all retail banking, general insurance and wealth management sales and service functions. Mark joined Suncorp as General Manager Human Resources in September 1997 having spent 19 years in a number of senior positions with the ANZ Bank's operation in New Zealand.

Diana Eilert
MComm (Mktg & Finance), BSc (Pure Maths)
Group Executive People, Technology and Marketing

Diana Eilert heads people and performance, technology, marketing and joint ventures for the Suncorp Group. Diana joined Suncorp in 2003 as Group Executive General Insurance and was responsible for Suncorp's personal and commercial insurance businesses. She moved to her current role in July 2006.

Diana has worked in financial services for over 20 years, commencing her career with NRMA Insurance. She has held executive and senior management roles in banking - including 10 years with Citibank - and insurance and investment. For the five years prior to joining Suncorp, Diana worked as a consultant so she could spend time with her three children. During this period she held roles as a Principal with AT Kearney and as a Partner with IBM.

David Foster
BSc, MBA, FFin
Group Executive Strategy

David Foster is responsible for the Group's strategy functions including group strategy, corporate development, e-commerce, strategic sourcing and procurement, communications and corporate projects. David joined Suncorp in 2003 after 14 years in a number of senior roles at Westpac in Queensland and New South Wales. Since joining Suncorp he has worked in retail banking responsible for strategy and deposit customer management and since November 2005 has been the General Manager Group Strategy and Corporate Development until his recent appointment.

Bernadette Inglis
BBus(Mktg), MBA, GAICD
Group Executive Retail Banking and Wealth Management

Bernadette Inglis leads the combined Retail Banking and Wealth Management division. She was previously responsible for the wealth management business as well as the design of the Group's strategy and management of the marketing function across Suncorp. Bernadette joined Suncorp in 2003 and brought to the Group over 20 years experience in the financial services sector.
For the nine years prior to joining Suncorp she held a number of senior executive roles at the Commonwealth Bank, including responsibility for the Retail Banking division's strategy development, the growth of the bank's internet banking and the development of the group's online businesses.

Stuart McDonald
BComm (UQ), MAppFin (Macq)
Group Executive Business Banking Customers

Stuart McDonald was appointed Group Executive Business Banking Customers in December 2005, and is responsible for commercial banking, agribusiness, property finance, equipment finance, corporate and trade finance customers. In his previous role as General Manager Group Strategy and Corporate Relations, Stuart was responsible for developing group strategy, corporate development, public affairs and government relations and e-commerce strategy development and implementation.

He was originally recruited to QIDC in 1995 where he established and managed the foreign exchange sales and trade functions. Following the Suncorp, Metway Bank, QIDC merger in 1996, Stuart played a major role in the implementation of the Group's transformation program. He then spent five years as General Manager Customer Development and Strategy for Suncorp's Business Bank.

Mark Milliner
BComm, MBA
Group Executive General Insurance - Commercial Lines

Mark Milliner was appointed to the Group Executive position in July 2006. He was previously General Manager General Insurance Property Claims and brings to his Group Executive role extensive experience in accounting, insurance, banking and organisational change management in both Australia and Europe. He joined Suncorp in 1994 and has worked on strategic change management projects including the merger of Suncorp, Metway Bank and QIDC in 1996 and the integration of Suncorp and GIO in 2001. Mark has also held a number of senior insurance management positions throughout the Group.

Chris Skilton
BSc (Econ)(Hons), ACA (Eng & Wales)
Chief Financial Officer and Executive Director

Chris Skilton joined Suncorp in June 2001 as Chief Financial Officer. He is responsible for finance, treasury, risk, compliance and regulatory affairs, and investor relations.

He was previously with Westpac where his final position was Group Executive, New Zealand and the Pacific Islands and prior to that Deputy Chief Financial Officer. Prior to Westpac, Chris was Managing Director and Chief Executive Officer of AIDC Ltd. Whilst still employed with AIDC Chris did a stint as acting Chief Executive Officer of the Australian Submarine Corporation, one of Australia's largest and most complex engineering projects. His wide professional experience also includes executive positions with Security Pacific Australia and the Barclay Group of Companies. He has over 20 years direct experience in various senior roles in the finance sector. Chris has been a Director of Suncorp since 13 November 2002.

Retail Banking

Retail Banking profile

Retail Banking provides home and personal loans, transaction, savings and investment accounts, credit cards and foreign currency services for more than 811,000 customers nationally through 173 branches and agencies, call centres, Internet banking and 474 ATMs. Customer sales and service is provided by 2,795 Retail Banking employees.

Retail Banking has lending assets of $21.6 billion (including securitised assets) and total retail deposits of $16.9 billion.

As part of the Suncorp Group, Retail Banking undertakes the distribution of general insurance products primarily through the branch network and also manages the financial planning workforce located in the branches on behalf of Wealth Management.

Performance

The Banking Division (including Retail and Business Banking) delivered a strong result in the face of intense competition, with a pre-tax profit of $506 million, up 11.5% on the previous year.

Home lending growth in the first half of the year was slower due to managing the volume/margin mix in a very competitive market. A combination of responding to market changes and additional initiatives put in place during the second half resulted in stronger growth particularly in the last quarter and positioned us well for the 2007 financial year. Competition has resulted in margin pressure for all industry participants and while we saw some margin contraction in the second half our full year performance was in line or better than that achieved by our banking peer group. The superior credit quality of the portfolio was maintained and costs remain under tight control.

Housing growth was the strongest in Queensland and Western Australian markets reflecting the robust economies in both states. We are achieving high home loan growth outside of Queensland, with assets now accounting for 36% of the portfolio and growing by 9.9% for the year.

Our broker distribution network continues to perform strongly and now comprises 35% of the home loan portfolio. Competition was greatest in this market and we have continued to strengthen our relationship with this network. Two service initiatives contributed to the better performance in the second half of the year: we reduced approval times for priority brokers through the Champions Club and focused on improving loan flows through the 100% ownership of the national real estate franchise LJ Hooker. This franchise experienced improved volumes over the year and record settlements in June. Loans originating from LJ Hooker increased by 67% in the year to June 2006.

In an intensively competitive market our 'Back to Basics' variable loan has achieved a high rate of customer acceptance through a mix of features, a lower interest rate and fee structure. Rationalisation of our products continued throughout the year.

Growth in consumer lending continued to out-perform the market. Although this segment is small, the strong growth reflects the ongoing success of our CANNEX *five star* rated Clear Options credit card products, increased margin lending reflecting the continued positive equity markets and improved processing in the personal lending business.

The strong performance in retail deposits was achieved in an environment where all major competitors are offering aggressive rates supported by

Away from the farm and processing plant, the Jaunceys' daughter and son-in-law, Sonya and Antony McConville have other financial requirements and with our extensive range of retail products and services, we can offer them our high interest Everyday Options Account, visa cards, personal and home loans.

Our retail banking customers can take advantage of online and phone banking, extensive ATM and EFTPOS facilities as well as access to 173 branches and agencies, mainly throughout Queensland and the eastern seaboard.

increased advertising. Excluding Treasury, retail deposits grew by 11.5% in line with the annual industry growth rate. Total retail funding was up $1.7 billion to $16.9 billion.

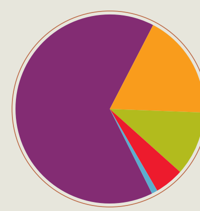
We have continued our strong focus on improving customer satisfaction. Our research indicated customers wanted competitively priced products that were simple to understand, accessible and flexible to use and operate. Our 'Simple Six' program was based on that insight. We reduced our product set to four core products which we believe can fulfil all our retail customers' personal transaction needs. We also implemented a range of payment initiatives, such as the BPay bill viewing facility for customers, and the first direct link for electronic inter-bank transactions. These initiatives will improve customer experience, increase revenues and reduce fees.

We have taken into account our customers' needs when we have opened new branches or relocated existing branches. The inviting 'new look' layouts and designs in Surfers Paradise, Fortitude Valley and Smithfield in Queensland, and in Penrith, Castle Hill, Liverpool and Port Macquarie in New South Wales have not only benefited customers and employees but many of the relocated branches have also experienced revenue growth post relocation. Key features of the new branch fitouts include lifestyle graphics themed to the location demographics, an open and inviting shopfront and entry zone, phone banking and internet facilities, private customer spaces and meeting rooms for confidential discussions, and an ATM.

And to top the year, we were again awarded Best Regional Bank from the Australian Banking & Finance Magazine and our Clear Options, Everyday Options and Smart Saver products received CANNEX *five star* ratings. We were also awarded Approved Deposit Taking Institutions Lender of the Year by the Mortgage Industry Association of Australia.

Retail Banking lending assets by state

$21.6b as at 30 June 2006



State	%
Queensland	65%
New South Wales (incl. Australian Capital Territory)	18%
Victoria	11%
Western Australia	5%
South Australia	1%
Tasmania	0%

Our People

A retail learning centre has been established to focus on training delivery and continual improvement and process, enhancing skills and competencies for new and existing employees. The learning centre follows a hybrid model with a central training administration service including mobile specialist trainers and general trainers based in the regions in which we operate.

Strong leadership capability has been identified as a critical enabler to us achieving our desired culture. Last year we implemented a leadership development program which included a 360 degree survey to provide clear feedback on leader behaviour, and actionable guidance on development. We have recognised that through the development of great leaders we are able to ensure our people have the skills, knowledge and behaviour to deliver a winning customer experience.

Retail Banking achieved a significant result in the employee engagement survey with an increase of 14% over last year. This result places us in the 80th percentile of global participants in the survey and this can be attributed to the focus that leaders have placed on ensuring a consistent set of employee friendly work practices and behaviours.

InFOCUS, a sales and service program which teaches skills and techniques that increase revenue and customer satisfaction, has now been rolled out to all Retail Banking employees after successful implementation to our front line employees last year.

Outlook

We expect home lending to be relatively stable in the year ahead, although the impact of interest rate rises in May and July, and any potential further increases could impact on lending growth in 2006/07. Lending growth in Queensland will continue to be supported by the strong economy, relative to the rest of Australia. Moderation in equity markets will impact on margin lending while consumer spending is likely to slow as the effects of rising fuel prices and interest rate increases flow through.

We remain focused on delivering excellent customer service and customer solutions and view these as the key strategies to continued good performance in Retail Banking.

Business Banking

Business Banking profile

Business Banking focuses on the needs of small to medium enterprises (SME) across five major areas of operation:

Commercial – providing working capital and term finance for business clients with borrowing requirements of more than $1 million.

Corporate – managing relationships with the Bank's largest (non-property) business customers and providing working capital and term finance generally between $10 million and $100 million.

Agribusiness – providing financial services and serviced relationship management for rural producers and associated businesses.

Property Finance – (includes Development Finance and Property Investment), providing term finance for investment properties and project finance for real estate developments, mainly residential shopping centres and warehouses.

Equipment Finance – providing a suite of leasing products, mainly for financing vehicles and equipment.

Business Banking also provides savings and investment products.

Business Banking has lending assets of $17.2 billion, more than 77,000 customers nationally, 56 outlets and 613 employees, including a network of 185 business customer relationship managers.

Performance

Business lending growth was greatest in Queensland, up 15.9%, and Western Australia, up 14.0%, where overall economic conditions and business confidence remain high. Although a subdued New South Wales market and strong competition contributed to commercial lending growth being below the industry average, we have maintained margins and credit quality. During the year we reassessed the SME market and now concentrate on customers with borrowings over $1 million. Business Banking customers with borrowings under $1 million are now serviced within the small business channel in Retail Banking.

Business deposits were up 29.1% for the year compared to the industry average of 13.1%.

Corporate Lending grew 48.7% to $1.8 billion as a result of targeting high quality corporate clients and syndicate lending, predominantly in Queensland. To capitalise on increasing infrastructure investment opportunities, a dedicated, specialist infrastructure team has been established within Corporate Lending. Over the past year this unit has been involved in the financing of infrastructure assets within the energy and transport sectors.

As predicted, Development Finance was impacted by the slowdown in residential construction but Property Investment growth rebounded strongly in the second half of the year following a range of management initiatives. The continuing strong economies of Queensland and Western Australia remain growth opportunities and we have commenced a major push into seniors housing as we focus on chosen markets for growth.

Agribusiness has again had a strong result, up 11.8% to $2.9 billion. Improved commodity prices in the sugar, cotton, grain and beef industries have brought a positive outlook for the rural community. However increasing drought conditions will continue to have an impact. Our focus on customer retention and service levels during the year contributed to our growth and expansion outside of Queensland.

James Jauncey manages the family farm, including 500 acres of broccoli. The freshly harvested product goes straight to the Matilda Fresh Food processing facility in Toowoomba.

Suncorp's Business Banking Manager Len Cooper stopped by the farm with James' Mum and Dad, Phil and Dianne Jauncey for a quick chat and to check the harvest. Len is providing business banking solutions for the Jaunceys through loans, cheque and investment accounts, credit cards and trade finance facilities.

Suncorp's other offerings include insurance and wealth management services to meet business needs.

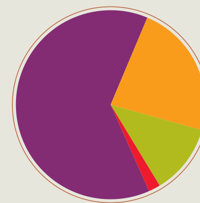
Business Banking by portfolio

$17.2b as at 30 June 2006

Property Investment	21.8%
Commercial (SME's)	20.5%
Agribusiness	17.1%
Development Finance	17.0%
Lease Finance	13.0%
Corporate	10.6%

Business Banking lending assets by state

$17.2b as at 30 June 2006



Queensland	63%
New South Wales incl. Australian Capital Territory	23%
Victoria	12%
Western Australia	2%
South Australia/ Tasmania	0%

Equipment Finance continues to capitalise on its relationship with the SME and agribusiness markets. During the year assets grew by 6.1% to $2.2 billion through low risk, high volume equipment and vehicle leasing, and construction equipment and forklift leasing through broker channels. This market is expected to grow with continued business confidence and investment.

We maintain strong relationships with brokers. In recognition of the important contribution this channel makes to our business, originating both consumer and business transactions, we have created a single Banking Intermediaries unit. This will enable us to better manage those broker relationships while continuing to acknowledge the importance of the existing relationship between the broker and the client.

Environmental initiative

In a new environmental initiative, and in conjunction with the Queensland Government, Suncorp facilitated the formation of the Clean Air Alliance. This Board is chaired by the Lung Foundation and consists of the Canegrowers, Australian cane farmers, Agforce and State Development, with the purpose of encouraging the development of a state-based ethanol industry. The use of ethanol-blended petrol, E10 (10% ethanol) reduces car emissions by 30% and we have introduced a policy making E10 the preferred fuel for around 600 vehicles used by employees for work purposes.

We are supporting our Agribusiness customers, especially those involved in sugar and grain production, to find alternative, viable markets through the development of secondary industries such as ethanol, which also offers a safe alternative fuel choice for the wider community at a time of rapidly rising oil prices and greater environmental awareness.

Our People

During the year we restructured Business Banking to focus on three key areas paramount to our future success. These are professional relationship management, end-to-end customer value propositions and providing seamless customer service in conjunction with other areas of Suncorp and our external suppliers. In a very tight labour market it has been important to retain and attract new people. We teamed up with People and Performance to implement the Strength Through People program which focuses on differentiating Business Banking from its competitors through its people. The program aims to provide our people with the skills to achieve personal, team and business goals and the most desirable work environment and culture to do this. The roll out of the Flexible Work Practices pilot program has given return-to-work mothers more options, and greater flexibility for other employees serious about progressing their careers, by offering part time, job share and work from home arrangements.

Outlook

The economic outlook for Business Banking is sound although conditions are likely to slow from previous years. Although business lending competition is intense and unlikely to abate in the short term, we are nonetheless confident that we can grow strongly by leveraging our proven relationship banking model and specialist expertise.
The Queensland economy is expected to remain sound which will assist our growth ambitions and we will continue to focus on relationships with intermediaries in those markets where our presence is not as strong.

Our solid position in property development finance, property investment lending and agribusiness should continue and we still seek new markets in which we can apply our specialist offering.

Our people remain key to our future and we are confident we can again perform strongly in the year ahead.

General Insurance

General Insurance profile

Suncorp is Australia's fourth largest general insurance group with annual premium revenue of $2.6 billion. Last year we took care of the needs of more than 3.8 million customers nationally by providing personal insurance (home, motor, compulsory third party (CTP)), commercial insurance for small to medium sized businesses and workers' compensation. We covered over 1.4 million motor cars, 1.3 million homes and around 350,000 businesses across the country.

We operate under our Suncorp brand in Queensland, RACT Insurance in Tasmania and GIO throughout the rest of Australia. We also own a 50% stake in insurance joint ventures with motor clubs in Queensland and South Australia.

Nationally, we hold substantial market shares and we continue to be market leaders in our home state of Queensland in home insurance, and CTP.

During the year we paid out over $1.9 billion in claims to more than 400,000 customers who called us for support.

Performance

General Insurance delivered a profit before tax of $691 million for the year to June 2006, despite a highly competitive operating environment that has continued to put pressure on premium rates. The profit result, up 4.7% on June 2005, was underpinned by improved investment returns, the leveraging of our strong brands across a unique distribution model and a significant focus on claims cost reduction for both property and casualty claims.

The gross written premium (GWP) for the business was $2.6 billion, increasing by 2.7% over the previous year. In CTP insurance, good growth in customer numbers in the two states in which we write CTP business, Queensland and New South Wales, partially offset the impact of intense competition and further premium rate reductions as a result of tort reforms.

Our personal home and motor business, which represents almost half of our general insurance business, grew by 5.8% to $1.3 billion. This was achieved through the launch of new insurance products to target customers such as '55UP' for our older home insurance customers and 'Family' no claim discounts for young drivers whose parents are existing customers.

Commercial insurance was highly competitive, with significant price reductions in most classes of business throughout the industry. Whilst we grew customer numbers, our gross written premium declined because of significant price competition. We also exited two very small portfolios, corporate property and marine, during the year because they were not expected to generate sufficient returns for shareholders. Premium growth when adjusted for these exited businesses declined marginally by 0.5%. We have continued our strategy to maintain rates at profitable levels regardless of declining premium rates in some classes.

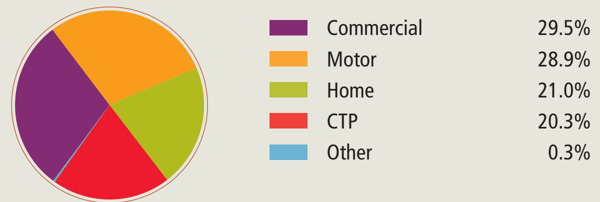
We underwrite workers' compensation in Western Australia, Australian Capital Territory and Tasmania. Our workers' compensation business experienced strong growth of 18.1% in the underwritten workers' compensation portfolio. The strong growth is largely attributable to the improved retention rates and the buoyant economic conditions in Western Australia which has delivered strong growth in business payrolls.

Cameron and Lachlan McConville are far too young to be able to take advantage of substantial savings on their Suncorp car insurance. Our new family discount for eligible drivers under 25 means that if you are a Rating 1 driver with Suncorp your kids could get a 60% discount on their own comprehensive car insurance with us. Your kids don't have to be on your policy and your Rating 1 won't be at risk should they make a claim.

Mum Sonya is already dreading the day when her sons get their first cars but at least she can have peace of mind that their insurance needs are in good hands.

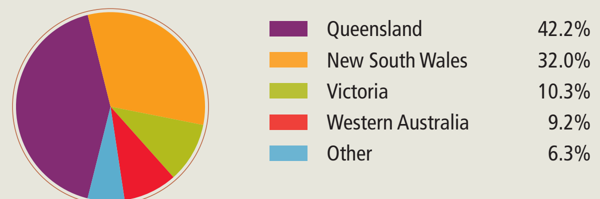
Gross written premium by product

$2.6b as at 30 June 2006



Gross written premium by state

$2.6b as at 30 June 2006



Suncorp participates in insurance joint ventures with motoring clubs in Queensland and South Australia. The joint venture contribution for the year to June 2006 was $25 million, down from $28 million in the year to June 2005. This was largely due to competitive industry conditions and lower investment returns from the joint venture entities.

We have maintained our focus on continually improving our customers' experience. As a result of customer feedback we have enhanced our 'First Call Resolution' program across all call centres. The program was introduced last year and aims to solve the customer's problem at the first point of contact. Specifically we have focused on the customer's perspective across our sales departments by realigning our metrics to measure what matters to the customer.

Taking a customer-centered view, we completely redesigned another major aspect of our customers' experience during the past year: their renewal notice. Customers with home, motor or CTP policies have responded positively to the fresh look and easy-to-read design of the new renewal notices, and we expect this will contribute to improved customer satisfaction and loyalty.

We have also improved our commercial insurance quote turnaround time from seven days to one day by reducing the amount of manual input required.

The introduction of the motor insurance Family discount option, which provides a full no claim discount to young drivers whose parents are existing customers, has resulted in over 5,000 policies being written. And we also launched the Named Driver option which targets the over 40s segment by a restricting comprehensive cover to a maximum of two drivers on their policy in return for a discount. Over 7,000 new risks in force have been written and we have converted over 4,000 policies at renewal.

Research in home insurance has shown that more than half of the over 55 year-olds are more inclined to choose an insurance product that had been designed for them. In recognition of our customers' changing needs, including their concerns around security and costs, we launched our 55UP home and contents Insurance solution at the end of 2005. Sales to date have exceeded expectations. An investor home and contents insurance was developed for the growing investment property market to cover risks that are unique to this market.

During the year, the business successfully implemented new direct commercial insurance distribution channels for GIO. The commercial call centre capacity was increased, a differentiated service model was implemented and we redesigned the remuneration models to drive better growth and retention. Initial results have been very positive with premium acquired through the Commercial Insurance call centre increasing by 50%.

General Insurance delivered a profit before tax of $691 million for the year to June 2006, despite a highly competitive operating environment...

GIO brand

To continue improving our GIO position, we undertook further research and focused our positioning of the GIO brand through our 'We don't just listen – we do' campaign. This targeted marketing activity has resulted in increased call volumes and greater awareness and consideration of the brand despite intensive competitor marketing activities.

Claims cost reduction

This year's profit result was supported by significant focus on claims cost reduction. We saw opportunities to redesign our claims process to build stronger relationships with our customers as well as lower claims handling costs from handling to repair. In short tail claims we have increased the amount of business managed by recommended repairers, ensuring we allocate each repair to the best repairer. We have also increased productivity by triaging claims more effectively so specialised teams can drive better outcomes and improve fraud detection. Similarly, in long tail claims, triage changes have improved the allocation of claims – in this case into more appropriate risk segments. For example, direct claimants require different interventions to claimants with catastrophic injuries. Additionally greater focus on process improvement is being applied across claims departments to sustain the improved cost position.

Little was spared after Cyclone Larry tore through areas of North Queensland

We reacted quickly to the needs of our customers when Cyclone Larry devastated areas of North Queensland and caused widespread damage to homes, businesses and crops in March 2006.

Cyclone Larry

We reacted quickly to the needs of our customers when Cyclone Larry devastated areas of North Queensland and caused widespread damage to homes, businesses and crops in March 2006. The net cost to Suncorp was about $80 million (net of reinsurance revenues) and we received approximately 40% of the insurance industry's total claims, including 6,000 home claims (see story next page).

Code of Practice

In General Insurance we take great pride in ensuring we comply with all regulatory standards. In 2005 we commenced working on complying with the new General Insurance Code of Practice well in advance of other insurers in order to meet our compliance commitment date of April 2006. As a result, we were the first general insurer to declare compliance with the Code, demonstrating commitment to service excellence, consumer rights and sound disclosure practices.

Community

We continue to be a leader in providing insurance to not-for-profit organisations in Australia and we were one of the first insurers to provide liability insurance to such community groups. Our dedicated Not-for-Profit Organisations (NFPO) team also provides support and services including education and conferences, free web-based risk management tools and a free national telephone hotline. During 2005, the NFPO team undertook a number of initiatives which included the Heart Kids NSW Comedy Ball and the Risk Management Conferences for the non-profit and other community organisations in Brisbane and Melbourne.

Our People

We are continually working hard to ensure we attract, develop and retain a talented workforce. As a result we were able to fill 23% of our permanent placements from within the organisation's talent pool. We have also continued with the rollout of our inFOCUS program which is aimed at providing a consistent approach to assessing and fulfilling customer needs.

Outlook

Our focus on claims cost reduction and initiatives to grow the business will continue. We forecast that a significant portion of the benefits flowing from the claims cost reduction project will be achieved in the next financial year, with the full benefits expected in the 2008 financial year. Growth initiatives will be supported by the recent appointment of two executives to run personal and commercial lines. Opportunities lie both in improved defence of the Queensland business and continued expansion in other states.

Cyclone Larry

Having been through Cyclone Winifred in 1986, Hugo Knorre of South Johnstone, far north Queensland, knew what he had to do to safeguard his house once the warning for Larry came through. But after taping up his windows and clearing the yard of debris, he realised that to ensure his safety he needed to evacuate his house and so went to stay with family a short drive away.

The morning after Cyclone Larry tore through the Innisfail region, Hugo returned to his home. From the street, it looked like it had remained untouched with the facade in place, however once through the front door, the true devastation was revealed. The majority of the roof had disappeared, the walls had caved in, and the cement foundations shifted.

The entire contents of Hugo's home were destroyed in the rains that followed Larry.

With family to stay with, Hugo didn't call Suncorp until three weeks after the storm, knowing that there were others in more dire circumstances than he was. When he did make contact, an assessor came out to survey the damage.

Hugo's home contents policy was soon paid out. Suncorp also paid for the disposal of the contents of the ruined house, plus provided additional money for accommodation assistance. Hugo was delighted with the service, saying he was well looked after and couldn't fault the attention given to his claim.

Hugo is rebuilding a bigger home, to accommodate his extended family, on the same site. Using brick this time around – they plan to move into their new home in February 2007.

When the cyclone struck in the early hours of 20 March, many of our people in the area suffered extensive damage to their own properties or were forced to evacuate family members. Despite this, Suncorp was the first insurer in the area helping our customers.

Our people worked tirelessly to assist our customers, despite road closures, flooding and other impediments, and have continued to do so ever since.

We are dealing with over 7,800 claims, assisting with the re-building with our partner, Bovis Lend Lease, and we opened a customer service centre in Innisfail so that customers can speak directly to their case managers about their claims. We also have dedicated teams behind the scenes to ensure we process these claims as efficiently and sensitively as possible. In the first days after the cyclone hit, Suncorp employees even provided food, shelter and solace for people in Innisfail.

Wealth Management

Wealth Management profile

Wealth Management has two divisions – the Life Company and the asset management operations managed by Suncorp Investment Management.

Within the Life Company we provide a comprehensive range of products and services to over 160,000 individual and small business customers through a network of 219 financial advisors and planners and corporate agents. Products include superannuation (personal and employer sponsored), managed investments (unit trusts and wrap service), life insurance (death, trauma and disability) and financial planning and advice.

Suncorp Investment Management manages $13 billion in assets including $6.1 billion from reserves of our general insurance business and investment funds of $1.7 billion from external wholesale clients.

Performance

Wealth Management recorded profit before tax of $81 million for the year to June 2006.

The underlying profit of $54 million for the year, which excluded a one-off $2 million loss arising from a valuation methodology change and the impact of investment earnings, was up 17.4% from $46 million for June 2005. The increase was mainly driven by higher planned profit, improved experienced profit and increased fees due to the strong growth of funds under administration and management.

Funds under administration increased by 19.8% to $6.2 billion at year end. Strong investment earnings and strong net inflows underpinned the growth.

New business sales were strong, increasing 18.8% to $782 million for the year, reflecting the sustained confidence in equity markets as well as changes to the tax legislation for superannuation. Consumer Credit Insurance (CCI) sales increased by 80% due to the launch of a new CCI home loan product and a further improvement in the take up rate of CCI personal loans. Our Group Life business received a significant boost in in-force premiums as the result of a major client increasing the level of cover for its members.

Our financial planners and advisors achieved stronger sales over the previous year and our corporate agent channel that primarily services our small to medium business customers, achieved 44% sales growth.

Investment Performance

12 months to 30 June 2006

	Benchmark %	Suncorp results %
Australian Cash[1]	5.76	6.02
Australian Fixed Interest[2]	3.41	3.91
Australian Equities[3]	23.93	29.54
Australian Equities Imputation[4]	23.93	31.77
World Equities[5]	19.98	22.32
Listed Property Trusts[6]	18.05	18.63

[1] UBSA Australian Bank Bill Index; [2] UBSA Australian Composite Bond Index; [3] S&P ASX 200 Accumulation Index; [4] S&P ASX 200 Accumulation Index; [5] MSCI World Index excluding Australia (net dividends) in AUD; [6] S&P ASX 200 Accumulation Index

It's never too early to plan for retirement and while Phil and Dianne Jauncey are leading full and active lives managing their business interests, the time will come to take things a little easier and enjoy the fruits of their labour. They understand the importance of long term planning which is reflected in their business success. Daughter and son-in-law, Sonya and Antony McConville are already making retirement provisions with managed funds investments and superannuation.

Suncorp has 92 financial advisors and planners ready to assist with investment and retirement planning.

The strong collaboration between Wealth Management and Retail Banking has been the cornerstone of achieving these sales results. The launch of dedicated financial advisors in our branches who focus solely on meeting the protection (risk) needs of our customers has ensured that our customers are protected against unlikely events and their most important assets – themselves and their families.

During the year we introduced six new managed funds, including a capital guaranteed option aimed at the expanding pre-retiree and retiree segments. We also enhanced our superannuation insurance offers and added a non-commutable pension functionality to allow our customers to take advantage of a wider range of flexible retirement alternatives.

We improved our services to new customers by providing a quarterly product investment report, a dedicated call centre for assistance, and information seminars. We continued to enhance our core planner servicing platform which our planners use to provide advice and ongoing relationship management for customers.

Our People

Last year we said we were ensuring that our people had career opportunities and leadership development capabilities available. Our people continue to be a strong platform for our success and over the last year we have seen the results in reduced employee turnover and the appointment and promotion of people from within the Group.

Investment performance

Throughout the year, our investment products regularly appeared in top quartile positions, most notably, our Australian Equities Fund and the Balanced Portfolio achieved first quartile standing over eight consecutive years as at 30 June 2006.

Funds under management

$13b as at 30 June 2006

The majority of our asset classes generated substantial excess returns over their respective measurement benchmarks. For example, Australian Equities exceeded an excess return of 5.6% over the Standard & Poor's ASX 200 Index.

Van Eyk, an independent research agency, awarded A-ratings to our Australian Equities Fund and to the Balanced Portfolio.

The Long Short Trust, a new Australian equity product, was fully subscribed by institutional clients shortly after its launch during the year.

Investment Management is now on a solid platform to expand its product range and provide value added client services.

Outlook

There is momentum in the Wealth Management business and we have the opportunity to compete aggressively, particularly in light of the proposed changes to superannuation announced in the Federal Budget and which take effect from 1 July 2007.

Overall, the outlook for the year ahead for sales in each of our channels is positive. Our business model will continue to evolve around the three factors of advice, direct, and investment performance.

We are also mindful of the industry focus on the need for the financial planning industry to self-regulate. We are well advanced in our plans to respond.

In an environment where many customers find it difficult to see the value in paying for advice, there is growing divergence between those customers seeking advice and those who want to transact directly. We expect the proposed superannuation changes to accelerate the need for wealth management providers to be able to offer solutions for both customer profiles.

We will continue to improve the effectiveness of our financial planning distribution channel, specifically addressing the financial advice, operational, remuneration and service models that support the ongoing delivery of financial advice to our customers.

Our People

We have 8,367 (Full Time Equivalent) Suncorp and GIO employees throughout Australia, predominantly in Queensland and New South Wales.

In the current economic climate of increasing competition and a tightening labour market, Suncorp's challenge is to build the organisation's desired culture and leverage our people as a competitive advantage. We have focused on:

- developing and implementing a fully integrated framework of people systems and processes;
- introducing a Leadership Framework to align accountabilities and authorities;
- introducing an employee engagement survey which articulated a clear link between business performance and employee engagement;
- conducting our inaugural culture survey.

Our program of work now leverages on the foundations that have been built to ensure we identify and maximise our people capabilities and achieve our cultural aspirations.

People capability

We know that we need to increase our effectiveness in defining, sourcing and recruiting top talent from within and outside the organisation.

We have sought innovative and targeted ways to improve the effectiveness of recruitment. For instance, our Employee Referral Program has proven to be highly successful, with almost 10% of appointments for 2006 resulting from an existing employee referral. Our Graduate Program aims to give new graduates exposure to different facets of the organisation, thereby creating a platform for a successful career with the Group. We have also developed a structured approach to orientation and job-readiness training.

An extension of our Learning and Development program is the development of a succession planning process, the success of which was demonstrated by the recent management restructure where many of our General Managers and Group Executives were rotated to different roles across the Group. This equips our leaders with a broad range of knowledge and experience, while ensuring our ongoing organisational leadership requirements.

A new leaders orientation program looks at the systems, tools and frameworks that leaders can use to help their people achieve excellence in their roles.

FLARE, a world-class program that is about creating outstanding leaders, has been a successful part of Suncorp's leadership training program for the last four years. In that time, we have seen a marked improvement in the way in which our people are managed, with leaders more confident and effective.

Culture

We ensure leaders display the right behaviours to create an optimal environment to achieve high performance. Our people have already embraced our core values – Honesty, Courage, Fairness, Respect, Caring and Trust - and the development of a Suncorp Employment Value Proposition (EVP) will set clear behavioural expectations for current and future leaders and employees.

Having an engaged workforce is important to us. Each year our people participate in an employee engagement survey which assesses the level of commitment our people feel towards Suncorp. Our scores have shown consistent improvement over the years, to the extent that Suncorp is now in the top 30% of companies participating in the survey world-wide. Almost half of all workgroups at Suncorp are recognised as best practice

Our people's commitment to the community is both reflected and enhanced through our Volunteer Day program. Over the last 12 months we have seen a significant increase in participation, from 33% to 48%, through making the program more flexible and awareness raising initiatives such as the Volunteer Day 'Share your story' competition. Teams and individuals around Australia told of encounters with wildlife, lawn mowers and garden hoes, good sunscreen work on our beaches, work with the elderly, disadvantaged and community groups, experiences which the volunteers found highly rewarding.

Sales and Service Assistant Murray Smith, Surfers Paradise, is just one of our employees enjoying the benefits of working in a 'new look' relocated branch.

– that is the top 25% of companies worldwide – and 20 of our leaders are in the top 1% worldwide.

This is an excellent result but we recognise that we still have work to do, particularly in relation to providing both leaders and employees with greater clarity around expectations, and providing the right support mechanisms for people to do their best work.

One way we are working towards this is to give staff improved tools to do their jobs and to make technology applications more efficient and reliable. The Suncorp Desktop Program (SDP) commenced an upgrade in April 2006 of the Group's entire desktop fleet and involves upgrading or replacing over 10,000 PCs and laptops with Windows XP and MS Office 2003. Behind the scenes there has been a significant investment in new IT infrastructure and technology to enhance the speed, reliability and security of Suncorp's IT network.

We have also been striving to make the environment a safer place to work. Our strong Group focus on incident prevention has rewarded us with some good results over the year. We've done a lot of work on the prevention of manual handling / ergonomic injuries. We have also been doing a lot of work on our OHS Management System to ensure our tools and processes are easy to use and effective in supporting our leaders. This means that where accidents do occur, we are able to rehabilitate our people back into the workforce much sooner (52% of claims now return to work in five days or less).

Workplace initiatives

As well as our strategic investments in our people during the year, we made a major investment in our working environment, particularly CBD office accommodation. With the majority of our CBD leases due to expire over the next three years, the Group saw a unique opportunity to bring employees together into purpose-designed locations to enhance collaboration and business flexibility.

Our National Workplace Change Program is at the forefront of an emerging global trend that is changing the way both employers and employees view the workplace. Over the next five years, over 6,000 employees across three states will participate in this program which will help to improve employee retention and attraction through better facilities, services, work practices and processes, technology, customer outcomes and employee job satisfaction.

During the year the first workplace change project, a refurbishment of our Business Banking premises at 56 Pitt Street Sydney, was successfully completed. Suncorp Place (Jamison Street, Sydney) and Brisbane Square (George Street, Brisbane) projects also commenced during the year. These two locations are major relocation and redesign projects, involving over 3,000 staff and setting the benchmark for all future Suncorp CBD offices.

Beyond the workplace

We acknowledge that work isn't everything. It is important for our employees to manage and balance the challenges of work and life. We are continually designing policies, such as flexible work arrangements, counselling programs and childcare referrals that make it easier for them to be productive at work yet still maintain life outside of the office.

Our Family Day program aims to encourage work/life balance, to increase the engagement of our employees, to provide them with an informal networking opportunity and to position Suncorp as a family-friendly employer. The events are extremely popular with employees, and the Family Day program will be expanding into regional areas during the year ahead. This year, families participated in the Bridge to Brisbane and Sydney's City to Surf fun runs and enjoyed a day out at the Melbourne Zoo.

Our Community

Suncorp has a long history of supporting the communities it serves by sponsoring events and providing much-needed assistance to charities, not just as a company but also through our people who give freely of their time and expertise to help out. We are there to assist our customers get back on their feet quickly when disasters like Cyclone Larry strike, ensuring claims are paid promptly and offering support services from short-term financial relief packages to mobilising teams of builders and other trade professionals to help with the rebuilding. This culture of helping and giving strengthens the bonds of goodwill between Suncorp and the community.

Skin Cancer Initiative

Our major Skin Cancer Initiative in Queensland is a good example of having a community flow on effect as we continue to promote sun safe messages and provide shade and sunscreen at community events. Together with the Queensland Institute of Medical Research (QIMR) we have helped raise more than $600,000 which has assisted in providing laboratory equipment and supplies for skin cancer immunotherapy trials at QIMR. Australia, and in particular Queensland, has the highest incidence of 100% preventable skin cancer in the world. This fact was the motivating force behind Suncorp's decision to launch this important initiative in 2004.

Fundraising events have included the Suncorp Ride 4 Research, which saw the participation of more than 100 employees, the launch of a customer on-line bill round up (BPay) donation facility and proceeds from the sale of a sun safe merchandise range.

More than 800 employees used their annual volunteer day to promote sun safe behaviour at beaches, pools and other community events, while others used their day to join with Greening Australia volunteers to plant thousands of shade trees at public parks and bikeways in South East Queensland.

We strengthened our sun safe partnerships with the Royal Life Saving Society Queensland as well as Sunshine Coast, Townsville, Cairns and Mackay City Councils and appointed Wallabies player Steve Larkham and Olympic swimmer Alice Mills as our Skin Cancer ambassadors for the summer season.

Hear & Say Centre

Suncorp has supported the Hear & Say Centre since 1994. The Queensland-wide charity teaches deaf and hearing impaired young children and infants to listen and speak through auditory verbal therapy. During the year more than $110,000 was raised for the centre, mainly through Suncorp's support of the annual Buy-a-Butterfly Appeal. The Hear & Say Centre is also the main benefactor of the 2006 Sunday Mail Suncorp Bridge to Brisbane Fun Run which is expected to raise more than $150,000.

Suncorp Queenslander and Young Queenslander of the Year Awards

These awards recognise outstanding people from many walks of life for their contribution to Queensland. Professor Ian Frazer, the 2006 Australian of the Year, was awarded the 2006 Suncorp Queenslander of the Year for his 20 years of research into the link between papilloma viruses and cancer. This led to the development of vaccines to prevent and treat cervical cancer which affects over 500,000 women worldwide each year.

Suncorp Young Queenslander of the Year was awarded to Leisel Jones OAM – Queensland's Olympic, Commonwealth and multi championship swimming medal winner and the 2005 Female Swimmer of the World.

Top: left to right:
Queensland achievers 2006: Rosemary Jones, Mother of Leisel Jones (Young Queenslander of the Year), Professor Ian Frazer (Queenslander of the Year), Shenee Lea Geerin (Community Spirit Award).

Enthusiastic runners in the Sunday Mail Suncorp Bridge to Brisbane Fun Run. Over 24,000 people, including 2,700 employees participated in the 2006 event.

Lower: left to right:
Skin Cancer ambassador, Wallaby Steve Larkham took the sun safe message to students at Karwongbah State School, Brisbane.

Suncorp Stadium.

Ball Kid Vuzi Willoughby in training at Suncorp Stadium.

Right: top to bottom:
Hear & Say Centre's Kabisi Mtebe won the audience's hearts when she sang with Queensland opera singer Leslie Martin at the launch of the Buy-a-Butterfly appeal.

Suncorp's sun safe volunteer was quick off the mark with a dab of sunscreen as these two swimmers emerged from the water at Kings Beach, Sunshine Coast.

The inaugural Community Spirit Award winner was Shenee Lea Geerin, a brave 13 year-old who almost lost her life in a tragic car accident three years ago. She has tirelessly fundraised for children with cancer and has won multiple community and fundraising awards for her contribution.

Bridge to Brisbane Fun Run

The 2006 Sunday Mail Suncorp Bridge to Brisbane Fun Run attracted a record 24,000 participants, including more than 2,700 employees. Suncorp has had joint naming rights of the event since its inception in 1997 and over the 10 years the run has raised over $1.6 million for Queensland charities. In support of our Skin Cancer Initiative, sunscreen sprayers were positioned along the course and each entrant received a Suncorp branded sunscreen sachet as part of their race kit.

Sydney Festival's Domain Concert Series

GIO was the co-sponsor of the Sydney Festival's Domain Concert Series in January. These free outdoor concerts attracted between 80,000 and 100,000 people. More than 45 employees from Sydney and Newcastle volunteered their time to sell raffle tickets at Jazz in the Domain, raising over $12,000 for the New Orleans Musicians Hurricane Relief Fund.

Sporting connections

In the sporting arena, our sponsorship of rugby union continues to grow.

We are in the third year of our Wallabies sponsorship. Prior to the return of the Bledisloe Cup to Queensland for the first time in 10 years, we embarked on a promotional tour of southern Queensland to showcase rugby and the Cup at local schools, rugby clubs and Suncorp branches. In partnership with Channel 7's Sunrise, we launched a national Ball Kids program, giving the winner the opportunity to live their dream by carrying out actual ball kid duties on match day and being photographed with the Wallabies.

During the year we announced a new sponsorship of the Australian Rugby Football Schools Union and a new three-year elite level sponsorship of the Queensland Rugby Union and the Queensland Reds. These sponsorships have enabled us to expand our overall involvement in rugby union and to develop a strong grassroots program particularly across regional Queensland. The program consisted of a series of junior rugby coaching clinics, school visits and Sportsman's fundraising functions impacting over 3,700 people across the events.

Other community support

In addition to the charities supported through our community sponsorship portfolio, we contribute to many other important charities and causes. Thousands of employees have used their annual volunteer day to take part in an activity to support their nominated cause or charity this year.

Suncorp was also presenting sponsor of the Youngcare Benefit Concert during the year. The special concert raised vital funding and awareness for the Youngcare Foundation, a non-profit organisation focused on providing a dignified and relevant lifestyle for some 6,000 young people with high care needs who currently reside in aged care nursing homes. Other community projects that we supported throughout the year included the Great Barrier Reef Research Foundation, the Brisbane Lord Mayor's Community Trust Christmas Appeal and the Queensland University of Technology's Old Government House Restoration Project.

Board of Directors

John D Story Age 60
BA, LLB, FAICD
Chairman, non-executive Director

Director since January 1995, Deputy Chairman since June 2002 and Chairman since March 2003. John Story is non-executive Chairman of the Board of the law firm Corrs Chambers Westgarth and is a director of CSR Limited and TABCORP Holdings Limited. He is President of the Queensland Council of the Australian Institute of Company Directors as well as being a member of its national board.

Mr Story has also been appointed a Member of the Senate of the University of Queensland and the Companies Auditors and Liquidators' Disciplinary Board and is a Commissioner of the Service Delivery and Performance Commission (Qld).

Listed company directorships held since 1 July 2003

Company Name	Appointed	Resigned
Advanced Magnesium Limited (formerly Australian Magnesium Corporation Limited)	03.11.01	04.05.05
CSR Limited	12.04.03	
Jupiters Limited and subsidiaries	17.04.91	13.11.03
Ruralco Holdings Limited (formerly Grow Force Australia Limited)	27.04.88	18.08.03
TABCORP Holdings Limited	29.01.04	

Martin D E Kriewaldt Age 56
BA, LLB (Hons), FAICD
Non-executive Director

Director since 1 December 1996. Martin Kriewaldt was also a director of the Suncorp Group from 1990 and Chairman at the time of the merger that formed the Suncorp-Metway Ltd Group in 1996. He is Chairman of Opera Queensland Limited, and a director of Campbell Brothers Limited, GWA International Limited, Oil Search Limited and Peptech Limited.

Mr Kriewaldt provides advice to Allens Arthur Robinson and Aon Holdings Australia Limited and is a member of the Redeemer Lutheran College Council.

Listed company directorships held since 1 July 2003

Company Name	Appointed	Resigned
Acuity Investment Management Ltd	24.09.03	04.12.03
Campbell Brothers Limited	12.06.01	
GWA International Limited	25.06.92	
Oil Search Limited (Group)	16.04.02	
Peptech Limited	24.10.03	

Ian D Blackburne Age 60
MBA, PhD, BSc (First Class Hons)
Non-executive Director

Director since August 2000. Ian Blackburne is Chairman of CSR Limited and a director of Teekay Shipping Corporation and Symbion Health Limited. He is the former Managing Director of Caltex Australia Limited having spent 25 years in the petroleum industry.

Listed company directorships held since 1 July 2003

Company Name	Appointed	Resigned
CSR Limited	01.09.99	
Symbion Health Limited (formerly Mayne Group Limited)	01.09.04	
Teekay Shipping Corporation (NYSE)	08.09.00	

Zygmunt E Switkowski Age 58
BSc (Hons), PhD, FAICD
Non-executive Director

Director since September 2005. Ziggy Switkowski is a director of Healthscope Limited, Opera Australia and Chairman of the Uranium Mining, Processing and Nuclear Energy Review Taskforce. Dr Switkowski is to be appointed as a director of TABCORP Holdings Limited following regulatory approval. He is also President of the Australian Centre for the Moving Image. He was previously Chief Executive Officer of Telstra Corporation Limited, Optus Communications Ltd and Kodak Australasia Pty Ltd.

Listed company directorships held since 1 July 2003

Company Name	Appointed	Resigned
Healthscope Limited	19.01.06	
Telstra Corporation Limited	01.03.99	01.07.05

Cherrell Hirst AO Age 61
MBBS, BEdSt, DUniv (Hon), FAICD
Non-executive Director

Director since February 2002. Cherrell Hirst is a medical doctor and was a leading practitioner in the area of breast cancer diagnosis. She is Chairman of Peplin Limited, Chair of the Board of Trustees of the Brisbane Girls Grammar School and Deputy Chairman of Queensland BioCapital Funds Pty Ltd. She is a director of MBF Australia Limited Group and Australasian Medical Insurance Limited and was a director of Metway Bank from July 1995 to December 1996.

Dr Hirst was Chancellor of Queensland University of Technology from 1994 to 2004 and is a director of Opera Queensland Limited, which is a not-for-profit organisation.

Listed company directorships held since 1 July 2003

Company Name	Appointed	Resigned
Hutchison's Child Care Services Limited	16.01.04	23.04.05
Peplin Limited	17.08.00	

From top, left to right
John Story
Martin Kriewaldt
Ian Blackburne
Ziggy Switkowski
Cherrell Hirst
Jim Kennedy
Bill Bartlett
John Mulcahy
Chris Skilton

James J Kennedy AO CBE Age 72
CBE D Univ (QUT) FCA
Non-executive Director

Director since August 1997. Jim Kennedy is a Chartered Accountant and a director of GWA International Limited, the Australian Stock Exchange Limited and until recently was also a director of Qantas Airways Limited for more than 10 years.

Listed company directorships held since 1 July 2003

Company Name	Appointed	Resigned
Macquarie Goodman Funds Management Ltd (formerly Macquarie Industrial Management Ltd)	31.05.94	05.02.04
GWA International Limited	28.08.92	
Qantas Airways Limited	18.10.95	30.06.06
Australian Stock Exchange Limited	26.02.90	

William J Bartlett Age 57
FCA, CPA, FCMA, CA (SA)
Non-executive Director

Director since 1 July 2003. Bill Bartlett is a director of Reinsurance Group of America Inc., RGA Reinsurance Company of Australia Limited, Retail Cube Limited, Peptech Limited and MoneySwitch Limited. He has had 35 years experience in accounting and was a partner of Ernst & Young in Australia for 23 years, retiring on 30 June 2003.

Mr Bartlett also has extensive experience in the actuarial, insurance and financial services sectors through membership of many industry and regulatory advisory bodies including the Life Insurance Actuarial Standards Board since 1994. In December 2004 he was appointed as consultant for the Treasury and the Financial Reporting Council and he holds an honorary position on the board of the Bradman Foundation and the Bradman Museum.

Listed company directorships held since 1 July 2003

Company Name	Appointed	Resigned
Peptech Limited	10.08.04	
Retail Cube Limited	10.05.04	
Reinsurance Group of America Inc. (NYSE)	26.05.04	

John F Mulcahy Age 56
PhD (Civil Engineering), BE (First Class Hons)
Executive Director, Chief Executive Officer

Director since joining Suncorp on 6 January 2003 as Chief Executive Officer. John Mulcahy is Deputy President of the Insurance Council of Australia, a member of the Business Council of Australia and the Australian Bankers Association Council. He was appointed a member of the Future Fund Board of Guardians in March 2006.

Mr Mulcahy previously held a number of executive roles at the Commonwealth Bank since 1995 and ranks as one of the most widely experienced financial services executives in Australia. He also has broad management experience, having served as Chief Executive of Lend Lease Property Investment Services and Chief Executive of Civil & Civic prior to 1995.

Chris Skilton Age 52
BSc (Econ), ACA
Executive Director, Chief Financial Officer

Director since 13 November 2002. Chris Skilton was appointed Chief Financial Officer of Suncorp-Metway Limited in June 2001. He has over 20 years experience in various senior roles in the finance sector.

Mr Skilton was previously Deputy Chief Financial Officer and then Group Executive for New Zealand and the Pacific Islands with Westpac Banking Corporation, Managing Director and Chief Executive Officer of AIDC Ltd, during which time he was also appointed as acting CEO of the Australian Submarine Corporation, one of Australia's largest and most complex engineering projects. He has also held executive positions with Security Pacific Australia and the Barclay Group of Companies.

Directors' Report

The directors present their report together with the financial report of Suncorp-Metway Ltd ('the Company') and of the Group, being the Company and its subsidiaries, for the financial year ended 30 June 2006 and the auditor's report thereon.

Contents **Page**

		Page
1	**Directors**	**33**
2	**Company secretaries**	**33**
3	**Directors' meetings**	**33**
4	**Corporate Governance Statement**	**33**
	4.1 Board of Directors	34
	4.2 Board Committees	36
	4.3 Risk management and internal controls	37
	4.4 Code of Conduct	38
5	**Remuneration report**	**38**
	5.1 Suncorp Group remuneration policy - audited	38
	5.2 Executive remuneration approval process - audited	38
	5.3 Executive remuneration structure - audited	39
	5.3.1 Overview of executive remuneration structure	39
	5.3.2 Fixed pay	39
	5.3.3 Short term incentives ('STI')	39
	5.3.4 Company performance and short term incentives	40
	5.3.5 Long term incentives ('LTI')	40
	5.3.6 Company performance and long term Incentives	42
	5.4 Executive service agreements - audited	42
	5.4.1 Group Executives	42
	5.4.2 Chief Executive Officer	43
	5.5 Key management personnel (excluding non-executive directors) - remuneration tables	43
	5.5.1 Total remuneration - audited	43
	5.5.2 At risk remuneration - unaudited	45
	5.5.3 Proportion of compensation at risk - unaudited	47
	5.6 Non-executive directors' remuneration policy and structure - audited	47
	5.6.1 Remuneration policy	47
	5.6.2 Remuneration structure	47
	5.7 Non-executive directors' - remuneration tables - audited	48
6	**Principal activities**	**48**
	6.1 Group's objectives	48
7	**Operating and financial review**	**49**
	7.1 Overview of the Group	49
	7.2 Financial position and capital structure	50
	7.3 Impact of legislation and other external requirements	50
	7.4 Review of principal businesses	50
	7.5 Significant changes in the state of affairs	50
	7.6 Environmental regulation	50
8	**Dividends**	**50**
9	**Events subsequent to reporting date**	**50**
10	**Likely developments**	**51**
11	**Directors' interests**	**51**
12	**Share options**	**51**
13	**Indemnification and insurance of officers**	**51**
14	**Non-audit services**	**51**
15	**Lead auditor's independence declaration**	**53**
16	**Rounding off**	**53**

1 Directors

The directors of the Company at any time during or since the end of the financial year are:

Non-executive

John D Story (Chairman)
William J Bartlett
Dr Ian D Blackburne
Rodney F Cormie, retired 26 October 2005
Dr Cherrell Hirst AO
James J Kennedy AO CBE
Martin D E Kriewaldt
Dr Zygmunt E Switkowski, appointed 19 September 2005

Executive

John F Mulcahy (Managing Director)
Christopher Skilton (Chief Financial Officer and Executive Director)

Particulars of the directors' qualifications and experience and details of directorships of other listed companies are set out under Board of Directors in the Annual Report.

2 Company secretaries

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

Thomas W Collier B Bus, CPA held the position of company secretary from February 2001 to July 2006 and has over 15 years' company secretarial experience within the banking and finance industry.

3 Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year appear in the table below.

4 Corporate Governance Statement

The Board of Directors of the Company is responsible for the Corporate Governance of the Company and the Group. This statement outlines the main Corporate Governance practices and policies that have been established by the Board and were in place throughout the 2006 financial year, unless otherwise stated, to ensure the interests of shareholders are protected and the confidence of the investment market in the Company is maintained. Those practices and policies are current as at the date of this Statement, which is 1 September 2006.

In establishing the Corporate Governance framework, the Board has considered best practice governance standards, including the 'Principles of Good Corporate Governance and Best Practice Recommendations' published by the ASX Corporate Governance Council ('Council') in March 2003.

That document articulated 10 core principles and 28 recommendations that the Council believes underlie good corporate governance and included guidelines to assist companies in complying with the principles and best practice recommendations.

All listed companies are required to disclose the extent to which they depart from these principles and recommendations during the reporting period.

The Corporate Governance policies, procedures and practices of the Group have been developed and implemented by the Board and management over many years and are consistent with the principles and best practice recommendations published by the Council. During the 2006 financial year there were no departures from those recommendations which should be disclosed to shareholders.

	Board of Directors		Audit Committee		Risk Committee		Nomination & Remuneration Committee	
	A	B	A	B	A	B	A	B
J D Story	11	11	4	4	7	7	2	2
J F Mulcahy	11	11	4	4(1)	7	5(1)	-	-
W J Bartlett	11	11	4	4	7	7	-	-
I D Blackburne	11	11	4	4	7	7	2	2
R F Cormie	4	4	1	1	3	3	-	-
C Hirst	11	11	4	4	7	7	2	2
J J Kennedy	11	11	4	4	7	6	-	-
M D E Kriewaldt	11	11	4	3	7	6	-	-
C Skilton	11	11	4	4(1)	7	6(1)	-	-
Z Switkowski	9	9	3	3	6	6	-	-

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

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

(1) Mr Mulcahy and Mr Skilton attend Audit Committee and Risk Committee meetings at the invitation of those committees. In accordance with accepted good governance practice there are no management representatives appointed as members of the Audit Committee.

A more detailed description of the structures and practices the Group has in place to address each of the principles and best practice recommendations is available on the Company's website at www.suncorp.com.au.

4.1 Board of Directors

Role of the Board

The Board is accountable to shareholders for the performance of the Group and has overall responsibility for its operations.

The Group conducts a diverse and complex range of business including banking, general insurance, life insurance and funds management, which means an important feature of the work of the Board is to ensure compliance with the prudential and solvency requirements of the Australian Prudential Regulation Authority ('APRA'). Board members of Suncorp-Metway Ltd also undertake roles as directors of Suncorp Metway Insurance Ltd, GIO General Limited, RACT Insurance Pty Ltd and Suncorp Life & Superannuation Limited, which are all subject to APRA regulation.

The Board generally meets on a monthly basis to consider matters relevant to the operations and performance of the Group however additional meetings are held as required. The Board also meets with senior management at least twice a year to consider matters of strategic importance to the Group.

Prior to each meeting of directors, the non-executive directors meet in the absence of executive directors and any other management representatives.

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

- Approve the strategic direction and related objectives for the Group.
- Approve annual budgets.
- Monitor executive management performance in the implementation and achievement of strategic and business objectives and financial performance.
- Ensure business risks are identified and approve systems and controls to manage those risks and monitor compliance.
- Appoint and remove the Managing Director and ratify the appointment and removal of executives reporting directly to the Managing Director (senior executives).
- Approve the Managing Director's and senior executives' performance targets, monitor performance, set remuneration and manage succession plans;.
- Determine and approve the level of authority to be granted to the Managing Director in respect of operating and capital expenditure and credit facilities.
- Authorise the further delegation of those authorities to management by the Managing Director.
- Approve major operating and capital expenditure and credit facilities in excess of the limits delegated to management.

Composition of the Board

At the date of this statement, the Board comprises seven non-executive directors and two executive directors, (the Managing Director and the Chief Financial Officer). The names of the directors, including details of their qualifications and experience, are set out in the directors' profile section of the 2006 Suncorp Annual Report.

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

- The Company's Constitution provides that at every Annual General Meeting, one third of the directors, excluding the Managing Director, shall retire from office but may stand for re-election. The Board confirm to shareholders whether they support the election of each retiring director in a statement that accompanies the Notice of Meeting.
- Board composition is reviewed periodically by the Nomination & Remuneration Committee, either when a vacancy arises or if it is considered that the Board would benefit from the services of a new director, given the existing mix of skills and experience of the Board and the ongoing need to align those skills with the strategic demands of the Group.
- A Board appraisal is conducted annually, as explained elsewhere in this Statement, which includes an assessment of future requirements in relation to Board composition based on the above criteria and overall Board performance.

Once it has been agreed that a new director is to be appointed, a search is undertaken, usually using the services of external consultants. Nominations are subsequently received and reviewed by the Board. When undertaking such a review the following principles, which form part of the Board Charter, are applied:

- The Board shall comprise no more than 11 directors and no less than seven.
- A majority of directors must be independent, non-executive directors.
- The directors shall appoint as Chairman of the Board, one of the non-executive directors whom is deemed by the Board to be independent.

Director independence and conflicts of interest

The Board has adopted a policy in regard to director independence, which includes:

- Criteria for determining the independence of directors.
- Criteria for determining the materiality of a director's association or business relationship with the Company.

Based on these criteria, which are summarised below and which are consistent with the ASX guidelines, the Board considers all current directors, other than the Managing Director John Mulcahy, (director since January 2003) and the Chief Financial Officer, Chris Skilton (director since November 2002), to be independent.

The names of the directors considered to be independent at the date of this Statement appear in the table on page 35.

The Board considers a director to be independent if the director is a non-executive director and:

- Is not a substantial shareholder of the Company or a company that has a substantial shareholding in the Company or an officer of or is otherwise associated with, either directly or indirectly, a shareholder holding more than 10% of the fully paid ordinary shares on issue in the Company.

Director	Term in Office (at the date of this statement)
J D Story (Chairman)	11 years 7 months
W J Bartlett	3 years 2 months
I D Blackburne	6 years 1 month
C Hirst	4 years 7 months
J J Kennedy	9 years 1 month
M D E Kriewaldt	9 years 9 months
Z E Switkowski	1 year

- Within the last three years has not been employed in an executive capacity by the Group or been a director of a Group subsidiary after ceasing to hold any such employment.
- Within the last three years has not been a principal or employee of a professional advisor or a consultant whose annual billings to the Group represent greater than 1% of the Company's annual (before tax) profit or greater than 5% of the professional advisor's or consultant's total annual billings.
- Is not a supplier or customer whose annual revenues from the Group represent greater than 1% of the Company's annual (before tax) profit or greater than 5% of the supplier's or customer's total annual revenue.
- Has no material contractual relationship with the Group other than as a director of the Company.
- Has no other interest or relationship that could interfere with the director's ability to act in the best interests of the Company and independently of management.

The assessment of director independence made by the Board, included reference to the following circumstances:

(a) Director Associations with a Professional Advisor or Consultant

Two directors, Messrs Story and Bartlett, have in the last three years held or continue to hold, a position of principal with firms providing professional advisory services to the Group.

Mr Story was, until 30 June 2006, a partner of Corrs Chambers Westgarth Lawyers, which provided legal services to the Group throughout the year. Mr Story remains as the non-executive Chairman of the Board of that firm.

Mr Bartlett was, until 30 June 2003, a partner of Ernst & Young, a firm that provided audit and consultancy services to a Group subsidiary until October 2002. During the period those services were provided, Mr Bartlett did not act as signing partner or appointed auditor for any Group subsidiary. Ernst & Young continued to provide some non-audit services to the Group during the year.

Another director, **Mr 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.

In all the above circumstances, none of the relationships or the services provided were or are deemed material in that they were within the Board determined policy limits referred to above.

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

Such a determination regarding independence does not however change a director's obligations in relation to addressing matters of conflict of interest, and it is important from a corporate governance standpoint to distinguish between those concepts.

The procedures adopted by the Board to address actual or potential conflicts of interest are included in the Board Charter and require directors to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a conflict exists, the director concerned does not take part in any decision associated with the matter, including, as appropriate, not receiving the relevant Board papers, not being present at the meeting when the item is considered and not being informed of the decision taken.

(b) Tenure in Office

The ASX guidelines also suggest that a director will be independent if the director '*has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company'.*

As disclosed previously in this Statement, the longest tenure of a director on the Group parent entity Board is eleven years and seven months, although Mr Kriewaldt was a director of Suncorp Insurance & Finance for some seven years prior to the merger with Metway Bank Limited in December 1996. The Board do not consider those service periods to have in any way interfered with the respective directors' ability to act independently and in the best interests of the Company.

Board appraisal

An appraisal of the Board is conducted annually, with an independent consultant engaged to facilitate the process every second year. The Chairman of the Board conducts the appraisal every other year, however the same methodology and processes (as summarised below) are followed each year.

During the 2006 financial year, the appraisal was conducted by independent consultants through interviews with each director and senior executive, with the main aims being to:

- Assess the effectiveness of the Board as a whole in meeting the requirements of its Charter.
- Assess the performance and contributions of individual directors, including the Chairman, in assisting the Board fulfil its role.
- Identify aspects of Board or director performance that require improvement.

A summary of the views expressed during the interviews in relation to each of the previous matters or any other matters that directors believe are relevant, is provided to directors in a report prepared by the consultants and the Board as a whole discusses the report and any recommendations for change or improvement are agreed. Progress against each of the recommendations is assessed in subsequent Board reviews.

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

Director remuneration

A Remuneration report, which explains the remuneration policies and structures in place for the Company's directors over the reporting period and includes full details of directors' benefits and interests, is provided in Section 5 of the Directors' Report section of the 2006 Suncorp Annual Report.

Director and senior management dealings in Company securities

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

- The release of the Company's half-year and annual results to the Australian Stock Exchange.
- The annual general meeting.
- Any major announcements.

The following approvals must also be obtained before a director or officer can deal in the Company's securities:

- Directors (including the executive directors) must advise the Chairman of the Board.
- The Chairman must advise the Chairman of the Audit Committee.
- Senior managers must advise the Managing Director.

The share dealing policy also extends to dealing in a financial product which operates to limit the economic risk of a holding in the Company's securities. Dealing in those type of securities is prohibited unless the transaction has been approved by either the Chairman (for directors) or the CEO (senior executives) and the security is fully vested.

The granting of approval to deal in the Company's securities is co-ordinated by the company secretary who is also responsible for reporting all transactions by directors and senior managers to the Board.

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

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

Full details of this policy are also available on the Company's website under 'Corporate Governance'.

Independent professional advice

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

Director education

The Company has an informal process to educate new and existing directors about the nature of the business, current issues and the corporate strategy. For new directors, this is achieved through meetings with the CEO and members of the Group Executive which are held soon after their appointment to the Board.

Throughout each year, presentations are provided to the Board and Board committees by management or industry experts on matters relevant to the Group's business. The appointment of all non-executive directors to each main Board committee (Audit and Risk) has also given each director wider exposure to the Group's operations and business.

Directors also participate in off-site strategy sessions at least twice a year.

4.2 Board Committees

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

In recognition of the important role played by the committees as part of the Group's overall governance structure, all non-executive directors are also members of the Audit and Risk Committees.

Each of the committees has its own charter, which is approved by the Board and which defines the respective committees' roles and responsibilities. Copies of the charters are available on the Company's website under 'Corporate Governance'.

The number of meetings held by each committee over the year and details of directors' attendance at those meetings are provided in section 3 of the Directors' Report.

Audit Committee

The primary role of this Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to oversight of the Group's financial and operational control environment.

Specific issues addressed by the Committee throughout the year, in accordance with its Charter included:

- Reviewing prudential supervision reports and monitoring management responses.
- Reviewing statutory reports and returns for lodgement with APRA.
- Reviewing half-year and annual financial statements and reports prior to consideration by the Board.

- Reviewing and assessing reports from management, the Approved Actuary, the Appointed Actuary and the external auditors in relation to matters impacting on the half-year and annual financial statements.
- Implementation of Australian equivalents to International Financial Reporting Standards and associated accounting policy changes.
- Audit planning– reviewing and approving audit plans as submitted by both internal and external auditors and agreeing areas of audit emphasis and audit approach.
- Reviewing internal and external audit reports to ensure that where weaknesses in controls or procedures have been identified, that appropriate and prompt remedial action is taken by management.

Independence

At all times throughout the reporting period, the members of the Audit Committee, as detailed below, were independent, non-executive directors. To further enhance the independence of the audit functions, (both internal and external) there were no management representatives on the Committee during the year.

However the Managing Director, Chief Financial Officer and the internal and external auditor are invited to Committee meetings at the discretion of the Committee.

The Committee also holds discussions with the auditors in the absence of management on a regular basis and the provision of non-audit services by the external auditor is reviewed by the Committee to ensure the integrity of the auditor's independence is not prejudiced.

Membership

As stated earlier, all non-executive directors of the Company are members of the Audit Committee and Mr Bartlett acted as Chairman of the Committee throughout the year.

Dr Switkowski was appointed to the Audit Committee on 28 September 2005, following his appointment as a director of the Company on 19 September 2005 and Mr Cormie was a member of the Committee until 26 October 2005 when he retired as a director of the Company.

At the date of this Statement, the qualifications of the members of the Committee satisfy the requirements of the ASX guidelines. Details of those qualifications are provided in the Directors' Profile section of the 2006 Annual Report.

Risk Committee

The role of the Risk Committee is to provide an oversight across the Group for all categories of risk through the identification, assessment and management of risk and monitoring adherence to internal risk management policies and procedures.

Specific issues addressed by the Committee throughout the year, in accordance with its Charter included:

- Enterprise Risks – monitoring the Basel II program of work and the implementation and effectiveness of the Group wide risk management framework.
- Balance Sheet, Liquidity and Market Risk – reviewing and monitoring prudential reports, performance reports and compliance with policy limits. Assessing and approving investment strategies and mandates.
- Credit Risk – reviewing and assessing loan portfolio reports, asset quality reports, credit and counterparty limits, bad debt provisioning and reinsurance counterparty provisioning. Assessing credit approvals and monitoring and approval of delegated credit authorities.
- Insurance Risk – reviewing and monitoring pricing and underwriting delegations and limits, performance reports and reinsurance debtor reports.
- Operational Risk – reviewing and assessing operational risk reports and assessing business continuity plans.
- Compliance Risk – reviewing due diligence reports and monitoring compliance with regulatory requirements including Financial Services Reforms.

Membership

As stated earlier, all non–executive directors of the Company are members of the Risk Committee and Dr Blackburne acted as Chairman of the Committee throughout the year.

Dr Switkowski was appointed to the Risk Committee on 28 September 2005, following his appointment as a director of the Company on 19 September 2005 and Mr Cormie was a member of the Committee until 26 October 2005 when he retired as a director of the Company.

Nomination & Remuneration Committee

The Nomination & Remuneration Committee is responsible for making recommendations to the Board on:

- Appointment and removal of directors.
- The remuneration of directors and the remuneration and performance targets of the Managing Director.
- Appointments to and terminations from Senior Executive positions reporting to the Managing Director.
- Remuneration and human resource policy matters.
- Board and management succession planning.

Membership

Mr Story (Chairman), Dr Blackburne, Dr Hirst.

4.3 Risk management and internal controls

The Company is required to manage a diverse and complex range of significant risks. Details of those risks and the type of controls and structures that are in place to ensure they are effectively managed, are set out in the 'Risk management' sections of the notes to the 2006 Annual Report.

However the Board has also established the following internal control framework:

- **Financial reporting** – The Board receives reports monthly from management on the financial performance of each business unit within the Group. The reports include details of all key financial and business results reported against budget, with regular updates on yearly forecasts. The Managing Director and Chief Financial Officer attest to the integrity of the financial reports provided to the Board

each month and provide a written statement to the Board, in relation the Suncorp Group's half-year and annual statutory accounts, that meets the requirements of ASX recommendations 4.1, 7.2.1 and 7.2.2.

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

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

- **Compliance** - Policies and procedures are also in place to ensure the affairs of the Group are being conducted in accordance with good corporate governance practices. These procedures also ensure executive management and the Board are made aware, in a timely manner, of any material matters affecting the operations of the Group that may need to be disclosed in accordance with the Company's disclosure policy, referred to above.

  These policies and procedures require all senior management personnel to complete a 'due diligence' report on a monthly basis, using an automated reporting system. Those reports are designed to identify any areas of non-compliance with legislative and regulatory requirements as well as internal policies and procedures.

  All matters identified are retained on each subsequent monthly report until the matter is finalised to the satisfaction of the appropriate level of management or in some circumstances a Board Committee or the Board. A due diligence report for the Group is signed by the Managing Director each month and a copy of that report is provided to the members of the Risk Committee.

  Procedures are also in place to ensure all material correspondence between Group entities and their primary regulators, including APRA and ASIC, is referred to the Board or relevant Board Committee in a timely manner.

4.4 Code of Conduct

Directors, management and employees are expected to perform their duties for the Group in a professional manner and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group.

The various policies and procedures that are in place to support this philosophy, are contained in the Group Code of Conduct ('Code') which is available on the Company's website under 'Corporate Governance'.

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

5 Remuneration report

The Group Remuneration report for 2006, as presented below, has been prepared for consideration by shareholders.

5.1 Suncorp Group remuneration policy - audited

The Group remuneration policy, as defined in the structures and practices described in this report, is 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 policy applies 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 three 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.

5.2 Executive remuneration approval process - audited

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 General Managers, based on the recommendations of the Group Executives. The CEO also approves the performance targets of the Group Executive.

5.3 Executive remuneration structure - audited

5.3.1 Overview of executive remuneration structure

The Suncorp executive remuneration structure as explained below, applies to the Chief Executive Officer ('CEO'), Group Executives (who report directly to the CEO) and General Managers, (who report directly to Group Executives). At the date of this report there were some 53 executives comprising those groups, including all executive directors and the company secretary.

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 schemes described below represent the variable component of executive remuneration and those schemes are structured to ensure outcomes are linked to actual and expected company performance. In summary, the short term incentive scheme is designed to reward individual performance on an annual basis and a key measure in determining the amount available for distribution is the Company's before tax profit during that period. The long term incentive scheme is designed to reward executives on the basis of the Company'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.

5.3.2 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. However all 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 executives (the CEO, Group Executives and General Managers) 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.

Reporting fixed pay outcomes

Shareholders should note when reviewing the remuneration outcomes for the year, as disclosed in the 'Executive Directors' and Executive Officers – Remuneration Tables' section, that the fixed pay outcomes reflect decisions by the Nomination & Remuneration Committee made twelve months earlier.

5.3.3 Short term incentives ('STI')

The Group has short term performance-based pay schemes for all eligible full time employees. There are two primary schemes in place, one for employees who are subject to the workplace Certified Agreement and one for employees who are subject to employment contracts, although there are also some separate schemes specifically designed for specialist or technical areas. Group Executives do not participate in those specialist schemes.

This component of the remuneration structure is focused on individual performance over a short period (normally a financial year), assessed in the context of the team, division, business unit and company performance and based on operational and financial measures.

Although the focus of this Report is the short term incentive scheme applicable to Suncorp executives, all Group short term incentive schemes are designed with the same outcomes in mind and are based on the same principles outlined in the 'Suncorp Group Remuneration Policy' section.

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 amount to be made available for the payment of STIs across the Group (the STI pool) and how that amount will be allocated between the business units. The Committee also determines at this time the STI outcomes for individual Group Executives and makes a recommendation to the Board regarding the STI outcome for the CEO. Those amounts form part of the Group STI pool.

The business unit pool allocations are then further allocated among the various divisions by the relevant Group Executive following which team and individual allocations are made on a 'manager once removed' approval basis. However until individual performance assessments have been conducted and allocations determined on the basis of relative performance, no eligibility to an STI payment is created and the determination of such payments remains at the discretion of the Nomination & Remuneration Committee and the Board.

The amount available for allocation as an STI payment, stated as a percentage of fixed remuneration, varies between levels of management in proportion to the capacity of each level of management to influence the Group's financial performance.

Subject to those considerations, the 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 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.

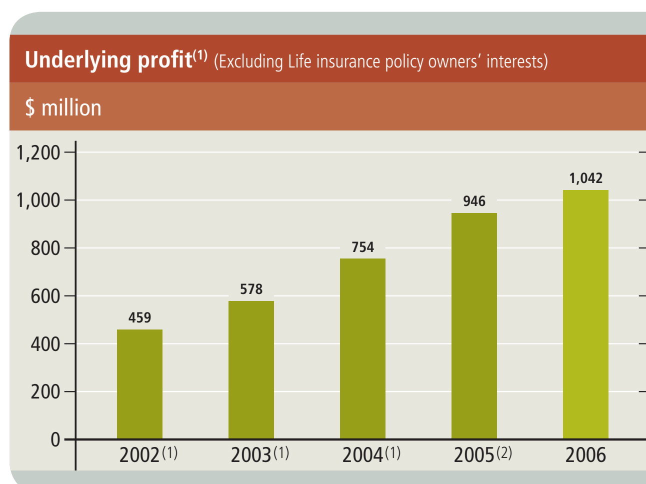
This process ensures there is ongoing assessment of individual and Group performance and also helps align the reward system to key corporate strategies and the sustained performance of the Group.

At other work levels within the Group, performance is measured against objectives more specific to individual employees' areas of responsibility.

Employees can elect to receive performance linked bonus payments as cash or they can direct the payment, or a proportion thereof, into Suncorp shares in the Deferred Employee Share Plan or to a qualifying superannuation fund.

5.3.4 Company performance and short term incentives

Below is a five-year history of the Group's underlying profit performance. As stated earlier, in determining the size of the Group STI pool, the Nomination & Remuneration Committee gives consideration to the financial performance of the Group, a key measure of which is the Group's profit in the performance period compared to prior periods.



Notes
(1) Underlying profit is defined at section 7.1.

5.3.5 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 company 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 scheme, the Executive Option Plan ('EOP'), which is referred to later 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, Company 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.

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 Company's level of relative performance, the effects of market cycles are minimised. That is, LTI rewards are reduced or cease 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 comparator group for future EPSP offers is currently under review. This review has been commenced to ensure that Suncorp's performance is measured against a group of companies that have a greater alignment with the competitive risks, pressure and opportunities faced by the Suncorp businesses. While this work is yet to be completed it is envisaged that future comparator groups will place greater emphasis on the financial services sector. Despite this review there will be no changes to the comparator group used for any of the former EPSP offers.

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:

Company 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 (3) years before an entitlement can be determined. During the financial year 2005/06, the first two LTI offers completed the minimum three year performance period.

In accordance with the rules of the plan, a performance assessment was conducted at the completion of each three year performance period. The results of that assessment are as follows:

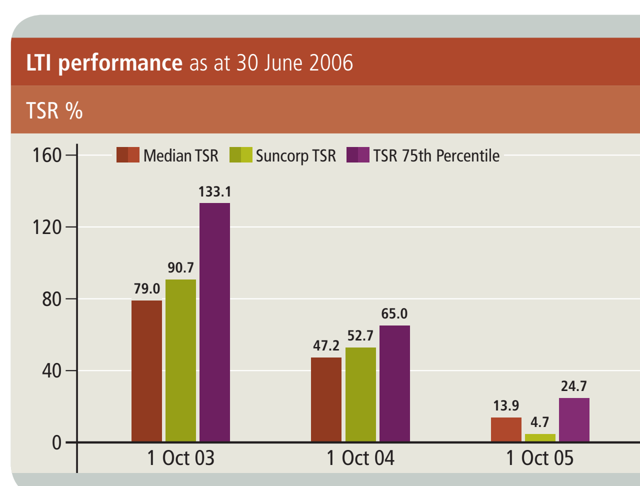
EPSP three-year vesting entitlements

Plan date	TSR percentile rank	Entitlement at 3 year performance period	% of eligible(1) employees who accepted 'vesting'
13 December 2002	67th	84%	50%
6 January 2003	65th	80%	0%

Notes

(1) Refer also to 'Performance periods' following.

The following graph provides a performance summary (as at 30 June 2006) for the three previous annual offers that have not yet completed the minimum performance period of three years. The results indicate that, over the performance period for each offer to 30 June 2006, the Suncorp TSR was slightly above the 50th percentile for the 2003 and 2004 offer and is below the 50th percentile for the 2005 offer. If these results were to continue to the end of the relevant performance periods, just over 50% of the available shares for the 2003 and 2004 offers would vest while none of the 2005 offer would vest.



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.

Suncorp Executive Option Plan

The EOP was established in 1997 following shareholder approval, as the long term incentive plan for Suncorp executives. However the EOP was discontinued in June 2002 and replaced by the EPSP as described above. Some executives retain an entitlement to options under the EOP and details of those entitlements are contained in the 'Executive Directors' and Executive Officers – Remuneration Tables' section of this report.

There are number of differences between those schemes, however the major difference is the basis for performance measurement. The performance criteria under the EOP was, with the exception of the last grant made in April 2002, based on movement in the Suncorp share price, without any reference to relative measures such as peer groups or market indices. The performance measure for the April 2002 grant was total shareholder return, relative to a comparator group of companies. This is of course the same basis of performance measurement adopted for the EPSP.

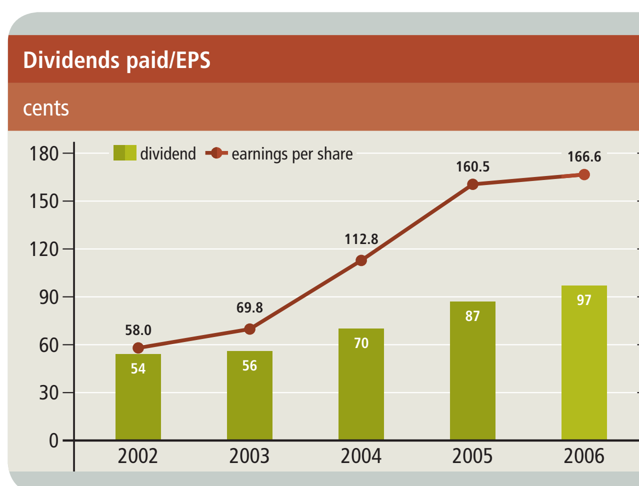
5.3.6 Company performance and long term incentives

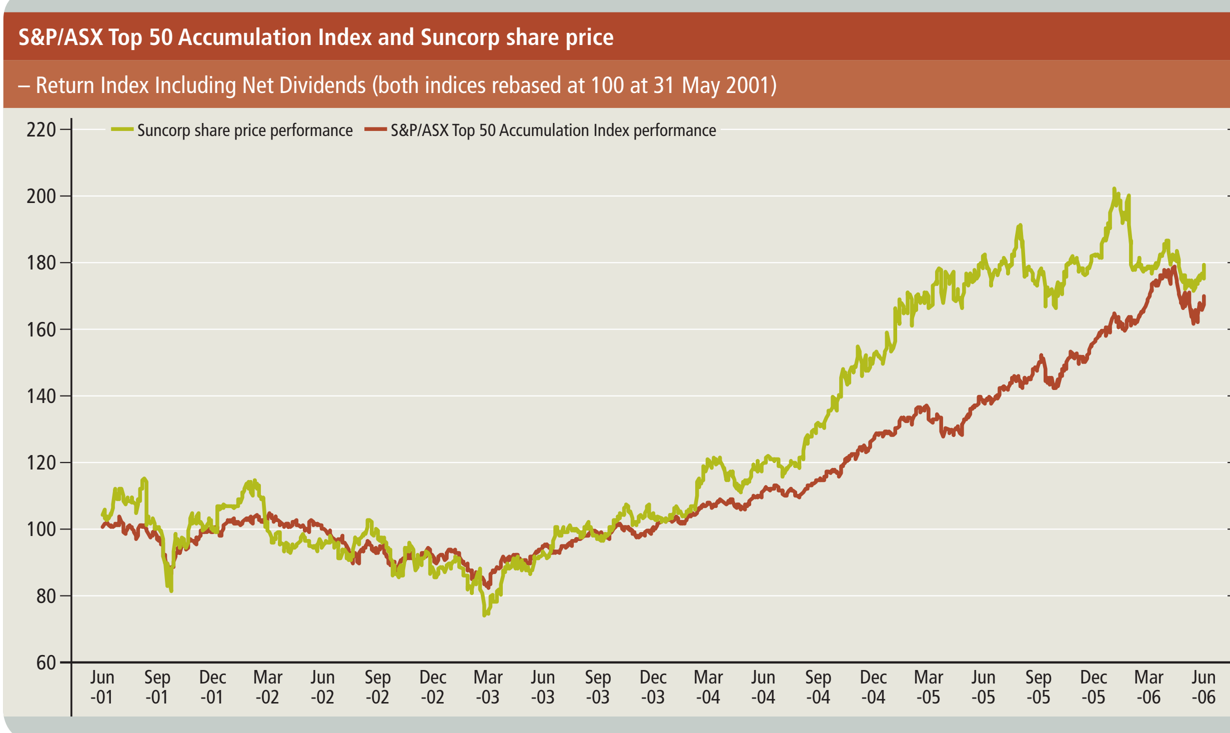
The comparative TSR hurdles which underpin the entitlement to long term incentives under the EPSP, reflect changes in shareholder wealth relative to the comparator group by incorporating both dividends paid by the Company and movement in its share price. The following graphs show dividends paid, basic earnings per share and movement in the Company's share price (against the S&P/ASX Top 50 Accumulation Index) over the last five years.

5.4 Executive service agreements - audited

5.4.1 Group Executives

Group Executives enter into a standard contract of employment, which does not have a finite term nor contain any termination payment arrangements other than retrenchment payments which are either term based or contractual with the maximum at 18 months TEC. The contracts can be terminated by either the employer or by the employee giving notice. Periods of notice vary and range up to six months. The Board has discretion to make further payments upon the termination of an executive, but is under no obligation to do so.





Remuneration of an executive (as for all salaried employees) is established on appointment having regard to market rates of remuneration and where appropriate, independent remuneration or recruitment advice. Thereafter any review of salary, the payment of a performance bonus or the grant of long term incentives in the form of deferred shares is entirely at the discretion of the Board. The basis on which fixed pay is determined and performance bonuses are paid and long term incentives are granted are discussed in earlier sections of this report.

5.4.2 Chief Executive Officer

The remuneration and service arrangements applying to the CEO and Managing Director, John Mulcahy, differ from those applying to other executives and any other executive director, to the extent that:

- Subject to the Company's rights of termination, the service agreement with John Mulcahy is for a specified term of five years commencing 6 January 2003 (extendable by agreement).
- The service agreement specifies payments to be made in the event that the agreement is terminated (for other than cause).

If termination occurs prior to 5 January 2007, the payments would include:

- A lump sum payment of $1.5 million.
- The first tranche of 100,000 long term performance reward shares without any regard to performance criteria.
- So much of any subsequent tranche of long term performance reward shares that vests during the 18 months after the date of termination, without any regard to performance criteria.

If termination of employment occurs in the final year of the five year term, Mr Mulcahy would receive:

- a lump sum payment representing the aggregate of any unpaid amount of his annual salary package, in the year of termination, and a short term incentive for that year (as determined by the Board).
- 100,000 shares being the third and final tranche of his long term reward shares, without any regard to performance criteria.

The above entitlements are prescribed in Mr Mulcahy's Service Agreement, however the Nomination & Remuneration Committee reviews the CEO's remuneration each year and make recommendations regarding his future entitlements to the Board, based on his performance and market relativities.

Therefore, over the term of Mr Mulcahy's Service Agreement the Board may grant further benefits to him, such as further offers to participate in the EPSP.

On his appointment as CEO in January 2003, Mr Mulcahy received an offer to participate in the EPSP and under that offer he may receive a maximum allocation of 300,000 Suncorp shares, subject to the achievement of the TSR performance criteria or as prescribed in the termination arrangements under his Service Agreement as referred to earlier in this report.

As part of the annual LTI grant to other senior executives, Mr Mulcahy has received further offers to participate in the EPSP, subject to the achievement of the TSR performance criteria, as follows:

- October 2004 – 100,000 shares.
- October 2005 – 120,000 shares.

Subsequent to the end of the 2006 financial year, the Board has decided that as part of the 2006 annual LTI grant to other senior executives, Mr Mulcahy will receive a further offer, in October 2006, to participate in the EPSP on the following basis:

- Number of shares – 120,000.
- Performance Criteria – TSR performance of Suncorp over the performance period relative to the EPSP comparator group. (The EPSP comparator group is currently being reviewed. Refer 'LTI performance measures' at sections 5.3.5). The allocation schedule for the EPSP as detailed earlier in this report will apply to the offer to Mr Mulcahy.

5.5 Key management personnel (excluding non-executive directors) - remuneration tables

5.5.1 Total remuneration - audited

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 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 or receive higher remuneration.

Mark Blucher	Group Executive Retail Banking Customers
Diana Eilert	Group Executive General Insurance
Bernadette Inglis	Group Executive Wealth Management, Group Strategy and Group Marketing
Hemant Kogekar	Group Executive Information Technology
Peter Johnstone	Group Executive HR, Projects & Central Services
Stuart McDonald	Group Executive Business Banking Customers (appointed to this role 1 December 2005).

In addition, Ray Reimer held the position of Group Executive Business Banking Customers until his resignation on 31 December 2005.

The following table provides the details of the nature and components of the remuneration paid to the KMPs (excluding non-executive directors). Details of non-executive director remuneration are provided later in this report.

	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	Other[3]	Shares[4]	Options[5]	
	$	$	$	$	$	$	$	$	$
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[6]	276,757	240,000	2,290	12,174	6,760	6,946	20,426	-	565,353
R Reimer[7]	231,090	-	57,790	(17,935)	20,417	(24,743)	516,889	2,525	786,033
2005 *Executive directors*									
J F Mulcahy	1,254,020	1,400,000	453	33,625	95,980	-	779,640	-	3,563,718
C Skilton	644,665	575,000	453	7,437	11,585	-	240,287	92,434	1,571,861
Executives									
M Blucher	495,610	400,000	453	1,882	39,390	8,254	201,159	31,396	1,178,144
D Eilert[8]	506,403	400,000	453	15,545	18,596	-	166,014	-	1,107,011
C Gray[9]	210,855	132,000	41,371	(13,410)	5,792	4,231	346,408	67,541	794,788
B Inglis	498,376	400,000	25,565	8,054	17,874	-	131,493	-	1,081,362
P Johnstone	423,415	350,000	453	1,577	11,585	7,053	154,561	37,998	986,642
H Kogekar[10]	176,429	280,000	227	13,460	15,879	-	19,475	-	505,470
R Reimer	432,339	400,000	61,929	(12)	38,911	8,231	183,770	9,807	1,134,975

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 annual leave and long service leave accrued or utilised during the financial year.

(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 this reporting period.

(6) Appointed 1 December 2005 to the position of Group Executive and was employed as a General Manager before that date. The above remuneration disclosures do not include remuneration received from the Group prior to 1 December 2005.

(7) Resigned 31 December 2005. In relation to shares and options, the allocated fair value relating to future periods is reflected entirely in 2006, as Mr Reimer ceased employment with the Company.

(8) A portion of 'shares' benefits for Ms Eilert relates to shares that vested at the date of her employment with the Company.

(9) Resigned 31 December 2004. In relation to options and shares, the allocated fair value relating to future periods is reflected entirely in 2005, as Ms Gray ceased employment with the Company.

(10) Appointed 1 January 2005 to the position of Group Executive and was employed as a General Manager before that date. The above remuneration disclosures do not include remuneration received from the Group prior to 1 January 2005.

5.5.2 At risk remuneration - unaudited

Short term incentive bonus

The STI bonus amounts referred to in the 'Total remuneration' table on the previous page represent 100% of the short term incentive component of 'at risk' remuneration that vested in the year for the benefit of the executive directors and the executives. Those STI bonus amounts were determined on the basis of company, business unit and individual performance over the financial year ended 30 June 2006 and are therefore deemed to have vested in that year, although payment will not occur until October 2006. Based on the remuneration policies and practices described in this report there were no STI bonus amounts attributable to the executive directors and executives that are considered to have been forfeited or deferred in the year.

Deferred ordinary shares granted as compensation

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 are detailed below:

	Deferred ordinary shares granted					Value yet to vest	
			Vested in year	Forfeited in year	Financial years in which grant vests	Min[1]	Max[2]
	Number	Date	%	%		$	$
Executive directors							
J F Mulcahy	100,000	6 January 2003	-	-	30 June 2008[4]	-	684,300
	100,000	6 January 2003	-	-	30 June 2007	-	713,900
	100,000	6 January 2003	-	-	30 June 2008	-	739,700
	100,000	1 October 2004	-	-	30 June 2008	-	900,500
	120,000	1 October 2005	-	-	30 June 2009	-	1,346,400
C Skilton	41,021	13 December 2002	-	-	30 June 2008[4]	-	268,852
	41,981	1 October 2003	-	-	30 June 2007	-	297,645
	32,808	1 October 2004	-	-	30 June 2008	-	295,436
	40,465	1 October 2005	-	-	30 June 2009	-	454,017
Executives							
M Blucher	36,463	13 December 2002	84	16	30 June 2006	-	-
	33,585	1 October 2003	-	-	30 June 2007	-	238,118
	27,559	1 October 2004	-	-	30 June 2008	-	248,169
	30,349	1 October 2005	-	-	30 June 2009	-	340,516
D Eilert	29,387	3 November 2003	-	-	30 June 2007	-	208,354
	27,559	1 October 2004	-	-	30 June 2008	-	248,169
	30,349	1 October 2005	-	-	30 June 2009	-	340,516
B Inglis	29,387	1 October 2003	-	-	30 June 2007	-	208,354
	27,559	1 October 2004	-	-	30 June 2008	-	248,169
	30,349	1 October 2005	-	-	30 June 2009	-	340,516
P Johnstone	27,347	13 December 2002	84	16	30 June 2006	-	-
	25,188	1 October 2003	-	-	30 June 2007	-	178,583
	22,310	1 October 2004	-	-	30 June 2008	-	200,902
	25,291	1 October 2005	-	-	30 June 2009	-	283,765
H Kogekar[3]	2,938	1 October 2003	-	-	30 June 2007	-	20,830
	10,663	1 October 2004	-	-	30 June 2008	-	96,020
	25,291	1 October 2005	-	-	30 June 2009	-	283,765
S McDonald[3]	3,358	1 October 2003	-	-	30 June 2007	-	20,999
	4,593	1 October 2004	-	-	30 June 2008	-	36,480
	6,576	1 October 2005	-	-	30 June 2009	-	65,076
R Reimer	31,905	13 December 2002	-	-	30 June 2008[4]	-	209,105
	29,387	1 October 2003	-	-	30 June 2007	-	208,354
	27,559	1 October 2004	-	-	30 June 2008	-	248,169
	15,175	1 October 2005	-	-	30 June 2009	-	170,264

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' at section 5.3.5.

Options granted as compensation

No options were granted as compensation during or since the current financial year. All options have vested, though not all are currently exercisable. Details of the options granted in previous years, which affect compensation this year for each executive director and each executive are detailed below:

	Number	Grant date	Exercisable from	Expiry date	Exercise price[(1)] $	Strike price[(2)] $
Executive directors						
C Skilton	116,667	20 September 2001	31 March 2006	20 September 2006	11.62	13.94
Executives						
M Blucher	34,000	20 September 2001	31 March 2006	20 September 2006	11.62	13.94
P Johnstone	42,000	20 September 2001	31 March 2006	20 September 2006	11.62	13.94
R Reimer	9,000	20 September 2001	31 March 2006	20 September 2006	11.62	13.94

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.

During the financial year, the following shares were issued on the exercise of options previously granted as compensation:

	Shares issued (number)	$ per share paid
Executive directors		
C Skilton	233,333	11.62
Executives		
M Blucher	42,000 33,000	8.89 11.62
P Johnstone	42,000 42,000	8.89 11.62
R Reimer	27,000 8,000	8.89 11.62

There are no amounts unpaid on the shares issued as a result of the exercise of the options.

The movement during the reporting period of options over ordinary shares in Suncorp-Metway Ltd held by each applicable executive director and executive is detailed on the right:

	Value of options[(1)]		
	Exercised in year[(2)] $	Forfeited in year[(3)] $	Total option value in year $
Executive directors			
C Skilton	1,945,997	-	1,945,997
Executives			
M Blucher	729,660	-	729,660
P Johnstone	818,580	-	818,580
R Reimer	376,110	-	376,110
	3,870,347	**-**	**3,870,347**

Notes

(1) No options were granted during the year.

(2) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Stock Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(3) No options lapsed during the year.

5.5.3 Proportion of compensation at risk - unaudited

Details of the proportion of compensation at risk for each executive director and each executive are detailed below:

	2006		2005	
	Proportion of compensation performance related	Value of options as proportion of compensation	Proportion of compensation performance related	Value of options as proportion of compensation
	%	%	%	%
Executive directors				
J F Mulcahy	60.6%	-	61.2%	-
C Skilton	57.1%	1.9%	57.7%	5.9%
Executives				
M Blucher	53.4%	0.8%	53.7%	2.7%
D Eilert	48.7%	-	51.1%	-
C Gray	N/A	N/A	68.7%	8.5%
B Inglis	52.2%	-	49.2%	-
P Johnstone	57.6%	1.1%	55.0%	3.9%
H Kogekar	58.3%	-	59.2%	-
S McDonald	46.1%	-	N/A	N/A
R Reimer	66.1%	0.3%	52.3%	0.9%

5.6 Non-executive directors' remuneration policy and structure - audited

5.6.1 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.

5.6.2 Remuneration structure

(a) Total remuneration limit

Decisions by the Board in relation to non-executive director remuneration must be determined within the maximum aggregate limit approved by shareholders, which is currently $2,500,000 per annum. That limit was approved by shareholders in October 2004 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.

(b) Directors' fees

The fee structure for non-executive directors was reviewed in October 2005 and the following fee structure was adopted:

Role	Current fee pa.[1]
Chairman of Directors	$437,500
Committee Chairman[2]	$200,000
Non-executive Director	$175,000

Notes
(1) Fees exclude Superannuation Guarantee Charge
(2) Additional fee does not apply to Chairman of the Nomination & Remuneration Committee

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

The above entities are all APRA regulated however no additional fees are paid for membership of those boards.

(c) 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 referred to in paragraph (a).

(d) 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; and
- 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 14% during the year.

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 the 'Non-executive directors' - remuneration tables' section of this Report.

(e) Non-executive Directors 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.

5.7 Non-executive directors' - remuneration tables - audited

The table on page 49 provide the details of all non-executive directors of the Company and the nature and amount of the elements of their remuneration.

6 Principal activities

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

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

6.1 Group's objectives

The Group's strategic journey to become a 'successful financial services conglomerate' is discussed in the Managing Director's Letter to Shareholders.

To achieve this, we will need to deliver returns better than our banking, general insurance and wealth management peers while at the same time extracting maximum value from the synergy benefits of our financial services conglomerate model.

To achieve this objective we have set ourselves the following tasks:

- Embedding a customer orientation in everything we do by:
    - utilising our management information systems effectively and deepening our analytical capability to understand our customer needs; and
    - designing compelling and targeted customer value propositions by matching our customers' needs to product, service, process and relationship management solutions.

- Optimising the inherent advantages of our unique business model by:
  - pursuing logical cross sell opportunities within our existing customer base;
  - striving to achieve best practice customer cross product holdings as well as attrition, retention and usage rates; and
  - targeting those customers and segments who have a preference to deal with a single financial institution.
- Maintaining a competitively advantaged cost position by:
  - consolidating appropriate support activities across the Group and therefore achieving lower unit costs;
  - achieving economies of scope through shared processing and call centre platforms where possible;
  - simplifying key processes across the Group; and
  - embedding an active portfolio management discipline.

7 Operating and financial review

Additional information on the operations of the Group, and the results of those operations, can be found in the business line operations section, Chairman's Letter to Shareholders and the Managing Director's Letter to Shareholders in the Annual Report.

7.1 Overview of the Group

Consolidated profit before tax for the year ended 30 June 2006 was $1,346 million (2005: $1,377 million). Consolidated net profit attributable to equity holders of the parent was $916 million (2005: $882 million). The increase is a result of increased profit contributions (excluding one-off items) from all Lines of Business as explained in the Managing Director's Letter to Shareholders in the Annual Report.

	Short term		Post Employment		Share based payments	Total
	Salary and fees	Non-monetary benefits	Superannuation	Retirement benefits[1]	Shares	
	$	$	$	$	$	$
2006 *Non-executive directors*						
J D Story[2]	314,333	380	67,106	(92,625)	90,667	379,861
W J Bartlett[2]	87,500	380	17,550	-	107,500	212,930
I D Blackburne[2]	136,500	380	17,550	(42,167)	58,500	170,763
R F Cormie[3]	51,427	95	4,629	(10,736)	-	45,415
C Hirst[2]	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)	-	152,293
Z E Switkowski[4]	137,311	285	12,358	-	-	149,954
2005 *Non-executive directors*						
J D Story[2]	300,000	453	92,450	(75,000)	49,000	366,903
W J Bartlett[2]	87,500	453	14,550	-	74,167	176,670
I D Blackburne[2]	123,063	453	15,488	(31,250)	49,020	156,774
R F Cormie	158,747	453	14,288	(31,250)	-	142,238
C Hirst[2]	135,104	453	13,350	(25,000)	13,230	137,137
J J Kennedy	163,933	453	-	(25,000)	-	139,386
M D E Kriewaldt	158,747	453	14,288	(31,250)	-	142,238

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 issued relate to a 'salary sacrifice' under the terms of the Non-executive Directors Share Plan. No performance criteria are attached to these shares.

(3) Retired 26 October 2005 and received a retirement benefit payment of $278,681.

(4) Appointed 19 September 2005.

The following table demonstrates returns to shareholders over the past five years:

	2006[1]	2005[1]	2004[1]	2003[1]	2002[1]
Net profit attributable to equity holders of the parent ($m)	916	882	618	384	311
Underlying profit[2]	1,042	946	754	578	459
Basic earnings per share (cents)	167	161	113	70	58
Dividends per share (cents)[3]	97	87	70	56	54

Notes

(1) Amounts for years 2002 to 2004 were calculated in accordance with previous Australian GAAP. Amounts for 2005 and 2006 have been calculated in accordance with Australian equivalents to IFRS ('AIFRS') – transitional arrangements apply to the 2005 year. For the impact of transition to AIFRS see the notes to the financial statements.

(2) Operating profit before tax, investment income on Shareholder Funds (General Insurance, General Insurance share of joint ventures and Wealth Management), investment income on capital and retained profits in Wealth Management and one-off items.

(3) 2005 excludes the special dividend of 75 cents per share.

Returns to shareholders increase through both dividends and capital growth. Dividends for 2006 were fully franked and it is expected that dividends in future years will continue to be fully franked.

7.2 Financial position and capital structure

The Group has a strong financial position with the net assets attributable to shareholders increasing by $154 million during the year [after adjusting for preference shares that were reclassified to be liabilities on 1 July 2005 upon transition to Australian equivalents to International Financial Reporting Standards ('AIFRS')]. Additional capital has been raised through retained profits, the dividend reinvestment plan and exercise of options. Retained profits have not yet deducted the final dividend of 50 cents per share amounting to $278 million.

The strong capital position of the Group is demonstrated by the Bank's adjusted common equity ('ACE') ratio of 5.99% and capital adequacy ratio of 12.31%, and the General Insurer's minimum capital ratio multiple of 1.79 times the statutory minimum. The Bank's capital adequacy ratio and the General Insurer's minimum capital ratio are significantly above the requirements of APRA being 9.5% and 1.25 times respectively and Board targets of 10% and 1.6 times respectively.

Some of the capital held is surplus to what is required for the Group's anticipated growth.

7.3 Impact of legislation and other external requirements

From 1 July 2005 the Group has complied with AIFRS. The impact of the changes in accounting policies is disclosed in the notes to the financial statements.

The Chairman's Letter to Shareholders addresses other legislative changes that affect the Group. There were no changes in environmental or other legislative requirements during the year that have significantly impacted the results or operations of the Group.

7.4 Review of principal businesses

Information on the principal businesses of the Group can be found in the business line operations section, Chairman's Letter to Shareholders and the Managing Director's Letter to Shareholders.

7.5 Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

- The Company undertook a Euro 500 million, five year floating rate note issue, equivalent to approximately AUD 795 million in October 2005.
- During the course of the financial year the Company issued the following subordinated debt:
  - $220 million floating tranche in September 2005; and
  - $300 million split between fixed and floating tranches in June 2006.
- The Company issued 3,422,400 ordinary shares (value of $73 million) in September 2005 in settlement of AMP Life Limited's 15,028,800 cash settleable warrants relating to Suncorp Metway Insurance Ltd's acquisition of GIO Insurance Investment Holdings A Pty Ltd.
- During the course of the financial year, the Company completed two securitisation transactions:

Month	Amount	Titled
July 2005	AUD 800 million	APOLLO Series 2005-2
May 2006	EUR 570 million + AUD 1.5 billion	APOLLO Series 2006-1E

7.6 Environmental regulation

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

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

8 Dividends

A fully franked 2006 interim ordinary dividend of $260 million (47 cents per share) was paid on 3 April 2006. A fully franked 2006 final dividend of $278 million (50 cents per share) has been declared by directors.

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

9 Events subsequent to reporting date

After balance date, the Group established a securitisation warehouse trust ($2 billion limit). The first assignment, in the order of $300 million, occurred on 25 August 2006 with settlement due on 4 September 2006.

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.

10 Likely developments

Information as to the likely developments in the operations of the Group is set out in the Chairman's Letter to Shareholders and Managing Director's Letter to Shareholders in the Annual Report.

The Group has announced its intentions to undertake the following transactions:

- where holders of Reset Preference Shares have requested the exchange of those shares, to exchange those preference shares for ordinary shares on 14 September 2006; and
- Suncorp Metway Insurance Limited to issue subordinated debt of between $100 million and $150 million.

The Directors have also announced that they are considering a capital distribution to shareholders in the December 2006 quarter.

As part of the Suncorp-Metway Ltd Workplace Change initiatives, the move of 1,800 employees into Brisbane Square will be completed in this calendar year.

As part of the Basel II framework, the Bank is implementing enhanced risk management systems. The Suncorp Basel II Program is now well advanced and is progressing towards implementation in accordance with the timeframe prescribed by the Regulator, APRA. There is every confidence that there will be compliance across Suncorp's operations by the prescribed date of January 2008. Basel II involves development of systems capability and data management to enhance the measurement of risk.

Further information on likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

11 Directors' interests

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

	Fully paid ordinary shares	Options over ordinary shares
J D Story	77,860	-
J F Mulcahy[(1)]	720,000	-
W J Bartlett	13,053	-
I D Blackburne	21,831	-
C Hirst	7,111	-
J J Kennedy	1,000	-
M D E Kriewaldt	48,901	-
C Skilton[(1)]	433,730	116,667
Z E Switkowski	10,000	-

Notes

(1) Includes shares held by the trustee of the Executive Performance Share Plan. Beneficial entitlement to those shares remains subject to satisfaction of specified performance hurdles. (J F Mulcahy: 520,000 shares; C Skilton: 156,275 shares).

12 Share options

The Company no longer grants options over unissued ordinary shares to employees as part of their remuneration.

Ordinary shares in the Company were issued during the year ended 30 June 2006 on the exercise of options granted in previous financial years under the Executive Option Plan. At the date of this report, there remains unissued shares under options. Information relating to exercised options and unissued shares under options are set out in the notes to the financial statements. Remuneration of directors and executives as set out in the remuneration report (section 5 of the Directors' report) includes a portion of the fair value of options granted which is allocated to this financial year.

13 Indemnification and insurance of officers

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

During the financial year ended 30 June 2006, the Company paid insurance premiums in respect of a Directors' and Officers' Liability insurance contract. The contract insures each person who is or has been a director or executive officer (as defined in the *Corporations Act 2001*) of the Company against certain liabilities arising in the course of their duties to the Company and its subsidiaries. The directors have not included details of the nature of the liabilities covered or the amount of the total premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

14 Non-audit services

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

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement *F1 Professional Independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

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

	Consolidated	
	2006 $000	2005 $000
Services other than statutory audit (all performed by KPMG unless otherwise noted):		
Audit-related fees (regulatory)		
APRA reporting	475	310
Risk management	44	58
Australian Financial Services Licences	97	59
Other regulatory services	432	101
	1,048	528
Audit-related fees (non-regulatory)		
AIFRS transition services	-	404
Other assurance services[(1)]	711	887
	711	1,291
Tax fees		
Tax advice	126	153
	1,885	1,972

Notes

(1) Assurance services also provided by Ernst & Young (2006: $11,000; 2005: $nil) and PriceWaterhouseCoopers (2006: $84,000; 2005: $nil).

The Company's auditor also provides audit services to non-consolidated Group superannuation funds. The fees paid or due and payable to the Company's auditor for these services during the year ended 30 June 2006 total approximately $9,000 (2005: $12,000).

15 Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 54 and forms part of the Directors' report for the financial year ended 30 June 2006.

16 Rounding off

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

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

John D Story
Chairman

John F Mulcahy
Managing Director

Brisbane, 1 September 2006

Lead Auditor's Independence Declaration

Lead auditor's independence declaration under Section 307C of the *Corporations Act 2001* to the directors of Suncorp-Metway Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

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

KPMG

KPMG

Brian Greig
Partner

Brisbane, 1 September 2006

Financial Overview

Profit

Consolidated profit before tax for the year ended 30 June 2006 was $1,346 million (2005: $1,377 million).

These results are based upon the new Australian equivalents to International Financial Reporting Standards ('AIFRS') regime. The profit of the Group was not materially impacted by the adoption of AIFRS, other than the cessation of goodwill amortisation.

Revenue increased in most segments of the Group, including banking interest revenue of $2.9 billion (2005: $2.5 billion), general insurance net earned premium revenue $2.5 billion (2005: $2.4 billion) and investment revenue $1.3 billion (2005: $1.1 billion).

The Group's net profit for the year was $916 million, compared to $882 million for the previous year. The increase is a result of increased profit contributions (excluding one-off items) from all lines of business.

Banking

Profit before tax increased 11.5% to $506 million (2005: $454 million). This was underpinned by solid revenue growth, continued cost control and disciplined credit practices.

Lending growth was up 7%, net interest income up 8%, total receivables (including securitised assets) reached $38.8 billion, up 11%, housing loans increased 10% and business banking grew by 12% on year to June 2006.

Credit quality remained strong.

General Insurance

Profit before tax increased by 5% to $691 million (2005: $660 million) driven by solid premium growth, increased investment income and favourable claims experience in short and long tail classes. The costs of Cyclone Larry offset some of these benefits.

Gross written premium (GWP) increased by 3% to $2.6 billion. Net incurred claims, before the impact of discount rate movements, decreased by $1 million to $1.7 billion. Higher operating expenses of 12% were mainly due to higher acquisition costs.

The insurance trading result increased by 10% to $474 million. This equates to a substantial margin of 19.3% on net earned premium, well above the Group's long term 11-14% range.

Wealth Management

Profit before tax decreased by 2% to $153 million (adjusted for reclassification of outside equity interests under AIFRS). Increased fees from growth in funds under administration and funds under management benefited the result.

New business sales increased 19% to $782 million (2005: $658 million).

Income tax expense

The effective tax rate was 31.9% (2005: 28.0%). Income tax expense includes an amount of $72 million (2005: $61 million) attributable to the life insurance company statutory funds.

Dividend

The increased profit has enabled an increase in the final dividend per ordinary share from 45 cents in 2005 to 50 cents, full franked. Dividends for the full year increased from 87 cents to 97 cents. Earnings per share (diluted) increased 3.8% to a record 166.56 cents for the year.

Consolidated Financial Report

Contents	Page
Balance Sheets	**58**
Income Statements	**59**
Statements of Recognised Income and Expense	**60**
Statements of Cash Flows	**61**

Notes to the Financial Statements

1. Significant accounting policies 62
2. Change in accounting policy 80
3. Accounting estimates and judgements 80
4. Segment reporting 80
5. Income 83
6. Expenses 84
7. Auditors' remuneration 85
8. Impairment losses on loans and advances 85
9. Income tax 86
10. Earnings per share 89
11. Cash and cash equivalents 89
12. Trading securities 90
13. Investment securities 90
14. Investments in associates and joint ventures 91
15. Loans, advances and other receivables 93
16. Provision for impairment 94
17. Property, plant and equipment 95
18. Investment property 97
19. Intangible assets 98

Contents — Page

Notes to the Financial Statements (continued)

20. Other assets 100
21. Deposits and short term borrowings 101
22. Payables and other liabilities 102
23. Employee benefits 102
24. Provisions 111
25. Outstanding claims, unearned premiums and unexpired risk liabilities 112
26. Gross policy liabilities 114
27. Outside beneficial interests 117
28. Securitisation liabilities 117
29. Bonds, notes and long term borrowings 117
30. Subordinated notes 118
31. Preference shares 118
32. Capital and reserves 119
33. Dividends 124
34. Risk management 125
35. Specific disclosures – Banking 126
    (a) Contribution to profit from Banking activities 126
    (b) Average Banking balance sheet and margin analysis 127
    (c) Impaired assets 129
    (d) Concentration of deposits and borrowing 130
    (e) Large exposures 130
    (f) Banking capital adequacy 131
    (g) Banking risk management 133
    (h) Credit risk concentrations 136

Contents	Page
Notes to the Financial Statements (continued)	

Entry	Page
35. Specific disclosures – Banking (continued)	
(i) Credit risk concentrations – impaired assets	137
(j) Interest rate risk	138
(k) Maturity analysis of financial assets and liabilities	142
(l) Critical accounting estimates and judgements	143
36. Specific disclosures – General Insurance	144
(a) Contribution to profit from General Insurance activities	144
(b) Net incurred claims	145
(c) Managed funds	145
(d) Liability adequacy test deficiency	146
(e) Minimum capital requirements	147
(f) General Insurance risk management	148
(g) Interest rate risk	150
(h) Critical accounting estimates and judgements	151
(i) Actuarial assumptions and methods	152
37. Specific disclosures – Wealth Management	154
(a) Contribution to profit from Wealth Management activities	154
(b) Sources of Life Insurance operating profit	154
(c) Net policy liabilities	155
(d) Trustee activities	155
(e) Disaggregated information by fund	156
(f) Solvency requirements of the Life Insurance statutory funds	158

Contents	Page
Notes to the Financial Statements (continued)	

Entry	Page
37. Specific disclosures – Wealth Management (continued)	
(g) Wealth Management risk management	159
(h) Interest rate risk	163
(i) Critical accounting estimates and judgements	164
(j) Actuarial assumptions and methods – policy liabilities	164
38. Financing arrangements	166
39. Derivative financial instruments	166
40. Financial instruments	169
41. Fiduciary activities	172
42. Commitments	172
43. Contingent assets and liabilities	174
44. Consolidated entities	175
45. Changes in the composition of the Group	177
46. Reconciliation of cash flows from operating activities	178
47. Key management personnel disclosures	179
48. Other related party disclosures	182
49. Subsequent events	183
50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards	183
Directors' Declaration	**200**
Independent Audit Report to the members	**201**
Metropolitan Permanent Building Society Trust	**202**

Balance Sheets

as at 30 June 2006

	Note	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Assets					
Cash and cash equivalents	11	489	1,084	217	652
Receivables due from other banks		26	67	26	67
Other financial assets					
Trading securities	12	3,773	3,396	3,773	3,396
Investment securities	13	10,926	9,958	2,095	2,052
Investments in associates and joint ventures	14	138	213	-	-
Loans, advances and other receivables	15	39,633	35,771	36,421	29,446
Bank acceptances of customers		316	74	316	74
Due from subsidiaries		-	-	3,956	2,082
Property, plant and equipment	17	131	105	32	33
Deferred tax assets	9	-	-	-	2
Investment property	18	196	156	-	-
Intangible assets	19	1,124	1,101	-	-
Other assets	20	617	563	215	144
Total assets		**57,369**	**52,488**	**47,051**	**37,948**
Liabilities					
Deposits and short term borrowings	21	27,683	27,157	27,683	27,157
Payables due to other banks		120	66	120	66
Bank acceptances		316	74	316	74
Payables and other liabilities	22	781	1,044	403	906
Current tax liabilities	9	136	182	136	182
Provisions	24	154	201	7	66
Due to subsidiaries		-	-	7,534	399
Deferred tax liabilities	9	68	55	1	-
Outstanding claims, unearned premiums and unexpired risk liabilities	25	5,672	5,538	-	-
Gross policy liabilities	26	3,906	3,244	-	-
Unvested policy owner benefits		270	324	-	-
Outside beneficial interests	27	854	-	-	-
Securitisation liabilities	28	5,700	3,906	-	-
Bonds, notes and long term borrowings	29	5,560	4,468	5,504	4,408
Subordinated notes	30	1,466	968	1,271	770
Preference shares	31	250	-	250	-
Total liabilities		**52,936**	**47,227**	**43,225**	**34,028**
Net assets		**4,433**	**5,261**	**3,826**	**3,920**
Equity					
Share capital		2,973	3,018	3,015	3,045
Reserves		28	12	31	13
Retained profits		1,432	1,484	780	862
Total equity attributable to equity holders of the parent	32	**4,433**	**4,514**	**3,826**	**3,920**
Outside equity interests	32	-	747	-	-
Total equity	32	**4,433**	**5,261**	**3,826**	**3,920**

The consolidated Balance Sheet includes the assets and liabilities of the statutory funds of the Group's life insurance business 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 2006

	Note	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Revenue					
Banking interest revenue	5	2,887	2,527	2,705	2,262
Banking interest expense	5	(2,039)	(1,740)	(1,777)	(1,559)
	35(a)	848	787	928	703
General insurance premium	5, 36(a)	2,644	2,587	-	-
Life insurance premium	5, 37(a)	136	113	-	-
Banking fee and commission revenue	5, 35(a)	202	211	189	216
Banking fee and commission expense	5, 35(a)	(73)	(82)	(75)	(82)
Reinsurance and other recoveries	5	335	338	-	-
General insurance investment					
– insurance funds	5, 36(a)	241	302	-	-
– shareholder funds	5, 36(a)	232	199	-	-
Life insurance investment	5, 37(a)	805	586	-	-
Other revenue	5	210	280	1,083	1,087
		5,580	5,321	2,125	1,924
Expenses					
Operating expenses	6	(1,431)	(1,260)	(1,144)	(856)
General insurance claims expense	36(a)	(1,948)	(2,085)	-	-
Life insurance claims expense	37(a)	(78)	(73)	-	-
Outwards reinsurance premium expense	36(a), 37(a)	(145)	(147)	-	-
Increase in net policy liabilities	37(a)	(497)	(378)	-	-
Increase in unvested policy owner benefits	37(a)	55	24	-	-
Non-banking interest expense	36(a), 37(a)	(184)	(26)	(24)	(15)
		(4,228)	(3,945)	(1,168)	(871)
Share of profits of associates and joint ventures	14	25	28	-	-
Profit before impairment losses on loans and advances and tax		1,377	1,404	957	1,053
Impairment losses on loans and advances	8	(31)	(27)	(24)	(21)
Profit before tax		1,346	1,377	933	1,032
Income tax expense	9	(430)	(386)	(116)	(120)
Profit for the year		916	991	817	912
Profit attributable to outside equity interests	32	-	109	-	-
Profit attributable to equity holders of the parent		916	882	817	912

	Note	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company :			
Basic earnings per share	10	166.61	160.51
Diluted earnings per share	10	166.56	160.39

The consolidated Income Statement includes the income and expenses of the statutory funds of the Group's life insurance business 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 2006

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Item of income and expense (net of tax)				
Change in fair value of assets available for sale	1	-	-	-
Cash flow hedges	31	-	30	-
Other transfers direct to equity	1	(1)	-	-
Net income recognised directly in equity	33	(1)	30	-
Profit for the year	916	991	817	912
Total recognised income and expense for the period	949	990	847	912
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 in retained profits	(52)	-	21	-
Net decrease in cash flow hedge reserve	(17)	-	(12)	-
	880	**990**	**856**	**912**
Total recognised income and expense for the period attributable to:				
Equity holders of the parent	949	881	847	912
Outside equity interests	-	109	-	-
Total recognised income and expense for the period	**949**	**990**	**847**	**912**

The consolidated Statement of Recognised Income and Expense includes the income and expenses of the statutory funds of the Group's life insurance business 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 2006

	Note	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Cash flows from operating activities					
Interest received		3,262	2,873	2,686	2,265
Premiums received		3,033	2,958	-	-
Reinsurance and other recoveries received		322	523	-	-
Dividends received		175	104	545	649
Recoveries on loans previously written-off		1	1	-	-
Other operating revenue received		571	374	745	614
Interest paid		(2,161)	(1,737)	(1,765)	(1,578)
Claims paid		(2,700)	(2,050)	-	-
Outwards reinsurance premiums paid		(251)	(158)	-	-
Operating expenses paid		(766)	(1,424)	(1,090)	(646)
Income tax paid – operating activities		(255)	(79)	(437)	(257)
		1,231	1,385	684	1,047
Increase in operating assets:					
Banking securities		(612)	(889)	(611)	(910)
Loans, advances and other receivables		(3,736)	(4,876)	(5,115)	(4,340)
Increase in operating liabilities					
Deposits and short term borrowings		289	3,276	3,723	4,303
Net cash from operating activities	46	(2,828)	(1,104)	(1,319)	100
Cash flows from investing activities					
Proceeds from sale of insurance investments		11,225	10,213	-	6
Proceeds from sale of investments in associates and joint ventures		83	-	-	-
Payments for plant and equipment and intangible software		(94)	(65)	-	-
Payments for purchase of insurance investments		(11,574)	(10,416)	(22)	-
Payments for purchase of investments in associates and joint ventures		(2)	-	-	-
Income taxes paid – investing activities		(182)	(179)	-	-
Net cash from investing activities		(544)	(447)	(22)	6
Cash flows from financing activities					
Proceeds from issue of shares		10	34	10	34
Proceeds from issue of subordinated notes		520	199	520	-
Proceeds from net increase in bonds, notes and long term borrowings		2,960	1,864	1,077	448
Payments for net increase in treasury shares		(16)	(8)	-	-
Dividends paid		(792)	(349)	(796)	(351)
Net cash from financing activities		2,682	1,740	811	131
Net increase/(decrease) in cash and cash equivalents		(690)	189	(530)	237
Cash and cash equivalents at the beginning of the period		1,085	802	653	416
Cash balances acquired during the period		-	94	-	-
Cash and cash equivalents at the end of the period	11	395	1,085	123	653

The consolidated Statement of Cash Flows includes the cash flows of the statutory funds of the Group's life insurance business 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.

Notes to the Financial Statements

for the year ended 30 June 2006

1. Significant accounting policies

Suncorp-Metway Ltd ('the Company') is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2006 comprises Suncorp-Metway Ltd and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities.

The financial report was authorised for issue by the directors on 1 September 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*.

International Financial Reporting Standards ('IFRS') form the basis of AASBs adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial reports of the Group and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the Group's first financial report prepared in accordance with AIFRS and IFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 50. This note includes reconciliations of equity and profit or loss for comparative periods reported under previous Australian standards ('previous GAAP') to those reported for those periods under AIFRSs.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The Group has elected to early adopt the following accounting standards and amendments:

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*

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

- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the Balance Sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures 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

The Group plans to adopt AASB 2005-9 in the 2007 financial year and AASB 7 and AASB 2005-10 in the 2008 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the Group as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the Group as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the Group. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the Group to date.

Other standards and amendments which are available for early adoption do not impact the Group and, therefore, have not been early adopted.

The 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.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated 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 and Directors' Report have been rounded off to the nearest one million dollars unless otherwise stated.

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 policies and reported amounts of assets and

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

liabilities, income and expenses. The estimates and associated 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 note 3.

Except for the changes detailed in note 2, the accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS Balance Sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS. The accounting policies applied to the comparative period have been disclosed if they differ from the current period policy.

The accounting policies have been applied consistently by each entity in the Group.

(c) Principles of consolidation

(i) Subsidiaries

Consolidation is the aggregation of the financial statements 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 (companies, managed investment schemes or trusts) controlled by the Company.

The consolidated financial statements 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 subsidiaries are carried at their cost of acquisition in the Company's financial statements.

In relation to the Group's life insurance business, which is conducted by Suncorp Life and Superannuation Limited ('the Life Company'), 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 Company. The shareholder represents the Life Company's 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 the Company as defined by the Life Act.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated 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 assessed for impairment each reporting date and are carried at the lower of the equity accounted amount and recoverable amount.

(iii) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

Interests in joint ventures are accounted for in the consolidated financial statements 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 ventures are assessed for impairment each reporting date and are carried at the lower of the equity accounted amount and recoverable amount.

(iv) 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.

The Company

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current year and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Notes to the Financial Statements

for the year ended 30 June 2006

1. Significant accounting policies (continued)

(c) Principles of consolidation (continued)

(iv) Securitisation (continued)

The Company (continued)

Current period policy

The Company receives the residual income of the Trusts and under AASB 139, interest rate risk from the Trusts is transferred back to the Company, by way of interest rate swaps. Accordingly, effective 1 July 2005, 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.

Comparative period policy

Securitised loans are derecognised from the Balance Sheet of the Company and recognised as loans in the Trust entities.

(v) 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.

(vi) Outside beneficial interests/outside equity interests

Outside beneficial interests which occur when the Group does not hold 100% of the shares or units in a subsidiary are 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 in non-banking interest expense.

Outside equity interests are 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 outside interests disclosed separately in the Income Statement.

Unit trusts are classified as debt in accordance with AASB 132 in the current period. In the comparative period, such unit trusts were classified as equity.

(d) 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, plus costs directly attributable to the acquisition. The subsidiary's identifiable assets, liabilities and contingent liabilities are measured at their fair values at the acquisition date. 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.

(e) 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.

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 note 1 (f) and (g) respectively).

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are generally translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues 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 re-translation are recognised directly in a separate component of equity.

(f) 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.

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Current period policy

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 at note 1(g).

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.

1. Significant accounting policies (continued)

(f) Derivative financial instruments (continued)

Current period policy (continued)

Banking activities (continued)

(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 stripped out of 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.

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 swap hedging the interest rate risk arising on the fixed rate subordinated debt issue. This hedge relationship has been designated as a fair value hedge.

Comparative period policy

Banking activities

Derivative financial instruments are accounted for in accordance with their purpose, being investing and financing, trading or hedging. They are classified into broad categories, as discussed below and at note 1(g).

(i) Investing and financing instruments

Investing and financing instruments are recognised in the Balance Sheet at the net market value as at the reporting date.

(ii) Trading transactions

Trading instruments are financial instruments that do not fall into either the 'investing and financing instruments' or 'hedge transactions' categories. They are recognised at their net market value as at the reporting date.

Speculative transactions outstanding at balance date are valued at the rates ruling on that date and any gains or losses are brought to account immediately in the Income Statement on a mark-to-market basis.

Insurance activities

Derivative financial instruments that are used to hedge underlying exposures are accounted for in a manner consistent with the accounting treatment of the underlying exposures. Accordingly, derivative financial instruments are marked-to-market and the resulting gains and losses are reported in the Income Statement.

Foreign exchange derivatives are entered into in order to hedge exchange rate risks arising from offshore liabilities. 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.

(g) Hedging

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Current period policy

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 Bank 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 Bank 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 Bank 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.

1. Significant accounting policies (continued)

(g) Hedging (continued)

Current period policy (continued)

Banking activities (continued)

(i) Cash flow hedges (continued)

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 hedge

A fair value hedge is a hedge of the exposure to changes in fair value of:

- a recognised asset or liability;
- an unrecognised firm commitment; or
- an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit and loss.

Where an effective hedge relationship is established, fair value gains or losses on the 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.

Comparative period policy

Banking activities

Hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at balance date are brought to account in the Income Statement on an accruals basis. Costs or gains arising at the time of entering into the hedge, including option premiums, are deferred and amortised over the life of the hedge.

Where the hedged transaction has been terminated, all gains and losses associated with the hedge are brought to account immediately in the Income Statement on a mark-to-market basis. Where the hedge is terminated early and the hedged transaction is still recognised, all gains and losses associated with the hedge are amortised over the life of the hedged transaction.

A financial asset or liability resulting from a hedging instrument is measured and recognised in the Balance Sheet on the same basis as the position being hedged. The financial instrument is accounted for as a hedge when it has an exposure to price risk that is equal and opposite to the position it is hedging.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash at branches, cash on deposit, balances with the Reserve Bank of Australia ('central bank') and money at short call. They are carried at the gross value of the outstanding balance.

(i) Receivables due from other banks

Receivables due from other banks include nostro balances (an account held with a foreign bank, usually in a foreign currency) and settlement account balances. They are carried at the gross value of the outstanding balance.

(j) Financial assets

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Current period policy

Banking activities

A financial asset is recognised on the Balance Sheet when the Bank 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.

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.

1. Significant accounting policies (continued)

(j) Financial assets (continued)

Current period policy (continued)

Banking activities (continued)

(ii) Loans and receivables (continued)

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. Refer also to note 1(ad)(i).

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

(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.
- Deferred acquisition costs [refer note 1(n)] and unearned reinsurance premiums.

Assets which back general insurance liabilities are initially recognised at fair value and subsequently measured at fair value through the Income Statement. 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 impairment as appropriate.

(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* – financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. 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.
- Intangible assets including goodwill on acquisition.

Loans and receivables are measured at each reporting date at amortised cost using the effective interest method. 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 in equity. 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.

Life Insurance activities

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

(i) Assets backing 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:

- Financial assets are recognised at fair value. Given the short term nature of most receivables, the recoverable amount approximates fair value.
- Investment securities that comprise holdings in unlisted managed investment schemes, futures and forward foreign exchange contracts. Movements in the fair values between each balance date, being the last price on those dates, are recognised in the Income Statement.
- 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 note 1(o) 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.

Notes to the Financial Statements

for the year ended 30 June 2006

1. Significant accounting policies (continued)

(j) Financial assets (continued)

Current period policy (continued)

Life Insurance activities (continued)

(ii) Assets not backing life insurance contract liabilities or life investment contract 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 Statements when the corresponding accounting standards allow such treatment. The following assets are not held at fair value:

- Investments by Suncorp Life & Superannuation Ltd 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

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.

Comparative period policy

Banking activities

(i) Trading securities

Trading securities are government and other debt securities that are purchased for sale in the day-to-day trading operations of the Bank. They are brought to account at net fair value based on quoted market prices or broker or dealer price quotations. Realised gains and losses on disposal and unrealised fair value adjustments are reflected in other revenue. Interest on trading securities is reported in net interest income. Trading securities are recorded on a trade date basis.

(ii) Investment securities

Investments securities are carried in the Group's financial statements at the lower of cost and recoverable amount.

Insurance activities

Investments integral to insurance activities are measured at net market value at each balance date. Differences in the net market values of integral investments at the previous balance date (or cost of acquisition if acquired in the current financial year) are recognised in the Income Statement.

Investments include listed investments, government securities, cash deposits and other short term negotiable securities and freehold land and buildings, whether wholly or partly owner occupied or fully leased.

Net market values for listed investments and government securities are determined by reference to market quotations.

Net market values for unlisted investments are determined by reference to independent valuations based on the latest available information on the investments. Net market values for freehold land and buildings are determined by independent valuations by registered property valuers. Buildings are not depreciated.

Investments not integral to insurance activities including cash deposits, short term negotiable securities and interests in unlisted investments are carried at the lower of cost and recoverable amount.

Funds management activities

Investment securities

Interests in unlisted unit trusts and unlisted managed investment schemes are stated at fair value. They are valued each reporting period according to their last available redemption price less an allowance for any transaction costs.

Revaluation increments are recognised in the asset revaluation reserve except for amounts reversing a decrement previously recognised as an expense, which are recognised as revenue. Revaluation decrements are taken to the asset revaluation reserve to the extent that such decrements are covered by amounts previously credited to the reserve and are still available in that reserve. Revaluation decrements in excess of amounts available in the reserve are charged to the Income Statement.

(k) 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 the Balance Sheet date.

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

(l) Lease receivables and other lease transactions

(i) Finance leases

Finance leases are those that transfer substantially all the risk and rewards of ownership to the lessee. 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.

(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.

Notes to the Financial Statements

for the year ended 30 June 2006

1. Significant accounting policies (continued)

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

(iii) Surplus leased premises

A provision is recognised for surplus leased premises where it is determined that no material benefit will be obtained by the Group from its occupancy. This arises where premises are leased under non-cancellable operating leases and the Group either:

- currently does not occupy the premises and does not expect to occupy it in the future;
- sublets the premises for lower rentals than it is presently obliged to pay under the original lease; or
- currently occupies the premises which have been assessed to be of no material benefit beyond a known future date.

The provision is calculated on the basis of net future cash outflows.

(m) 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	greater of 10.0% or life of the lease
Motor vehicles	15.0 %
Technology hardware	33.3 %, or 20% in limited instances
Automatic teller machines	20.0%
Desktop computer equipment	25.0%, or up to 50.0% in limited instances
Other computer equipment	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.

(v) Leased assets

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.

Where 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.

Operating lease payments are representative of the pattern of benefits derived from the leased asset and accordingly are charged to the Income Statement in the periods in which they are incurred.

(n) Intangible assets

(i) Initial recognition and measurement

Intangible assets are stated at cost less any accumulated amortisation and any impairment losses [see note 1(p)].

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

'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.

1. Significant accounting policies (continued)

(n) Intangible assets (continued)

(ii) Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iii) Goodwill

Business combinations prior to 1 July 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing the Group's opening AIFRS Balance Sheet at 1 July 2004 (see note 50).

Business combinations since 1 July 2004

All business combinations are accounted for by applying the purchase method. Goodwill is the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary or joint venture. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of joint ventures is included in investment in joint ventures.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment [see note 1(p)].

(iv) Amortisation

Amortisation is charged to the Income Statement on a straight-line basis 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 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 amortisation rates used in the current and comparative periods are as follows:

Category	Rate
Franchise systems	5%
Development software	33.3 %, or 20% in limited instances

(o) Deferred acquisition costs

General Insurance activities

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

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Current period policy

Deferred acquisition costs are taken up 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.

Comparative period policy

Deferred acquisition costs are measured at the lower of cost and recoverable amount. The recoverable amount of deferred acquisition costs is assessed by reference to the expected future profit implicit within the unearned portion of premiums written.

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 statutory fund life investment business and investment business written through the shareholder fund, 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).

(p) Impairment

Impairment occurs when an asset's recoverable value is less than the amount at which it is recorded.

Assets of the Group 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.

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 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.

1. Significant accounting policies (continued)

(p) Impairment (continued)

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.

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.

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 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

Impairment of loans and receivables

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Current period policy

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.

Comparative period policy

A specific provision for impairment is made for all identified doubtful debts when there is reasonable doubt that all or a proportion of the principal can be collected in accordance with the terms of the loan agreement. Specific provisions for impairment are based on the face value of the exposure less the current market value of security less disposal costs.

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 Statements.

General provisions for impairment are maintained to cover non-identifiable possible losses and latent risks inherent in the overall portfolio of loans and advances. The provisions are determined having regard to the level of risk weighted assets, economic conditions, the general risk profile of the credit portfolio, past loss experience and a range of other criteria.

The amount necessary to bring the provisions to their assessed levels, after write-offs, is charged to the Income Statements.

(q) Financial liabilities

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Current period policy

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.

1. Significant accounting policies (continued)

(q) Financial liabilities (continued)

Current period policy (continued)

(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 Hedge Accounting policy.

(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.

Comparative period policy

(i) Deposits and borrowings

Deposits and short term borrowings comprise deposits raised and securities issued by the Group.

Deposits are carried at the principal amount outstanding. Interest expense on amounts outstanding is charged to the Income Statement on an accruals basis.

Securities issued are recorded at issue consideration adjusted for premium or discount amortisation and interest accrual. Premiums or discounts are amortised and interest is accrued from the date of issue up to maturity or interest payment date and charged to the Income Statement.

Obligations to repurchase securities sold under repurchase agreements are recorded as deposit liabilities. The applicable securities are retained within the investment or trading portfolios and accounted for accordingly.

(ii) Bank acceptances of customers

The exposure arising as a result of bank bill acceptances that are sold into the market is recorded in the Balance Sheet as a liability. An asset of equal value is recorded in the Balance Sheet to reflect the offsetting claim against the drawer of the bill. Bank acceptances generate fee income that is recognised in the Income Statement when earned. Discounted bills accepted by the Group are recorded as part of Trading Securities as the intention at the time of discount is to offer the bills for resale.

(r) 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 report and past practice supports the calculation.

(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.

In relation to the defined benefit superannuation schemes, any deficiency (surplus) of plan assets to meet the present value of the defined benefit obligation, or any movement in such a deficiency (surplus), is recognised as a liability (asset) and expense (revenue).

(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) Share based payments

The Group operates several equity-settled, share based compensation plans. For further details, refer to note 23.

1. Significant accounting policies (continued)

(r) Employee entitlements (continued)

(iv) Share based payments (continued)

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 multiplied by 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:

- 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 an asset in the Balance Sheet of the purchasing entity and as Treasury shares in the Group's Balance Sheet. The fair value of the shares is recognised over the vesting period. The difference between the purchase cost and fair value is expensed at vesting date.

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.

(s) 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.

(t) 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. 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 25.

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.

(u) 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 Balance Sheet date exceeds the unearned premiums liability in relation to such policies after the deduction of any deferred acquisition costs. 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, being Personal Long tail, Personal Short tail, Commercial Long tail and Commercial Short tail. Any unexpired risk liability remaining after writing off deferred acquisition costs is recognised immediately in the Income Statement.

1. Significant accounting policies (continued)

(u) Unexpired risk liability (continued)

General Insurance activities (continued)

The Liability Adequacy Test assesses whether the net unearned premium liability 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 increase the statistical probability that the estimate is adequate to 75%. The 75% basis is a recognised industry benchmark in Australia, being the minimum probability of adequacy required by APRA for Australian licensed insurers. This basis differs from the level of confidence applied to outstanding claims liabilities of approximately 94%. The level of confidence applied to the Liability Adequacy Test is considered appropriate having regard to 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.

(v) Policy liabilities

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Current period policy

Contracts entered into by the Life Company 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 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 liability, 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 based on the Commonwealth Government bond rate, having regard to the nature, structure and term of the contract liabilities.

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 Company's constitution. The participating policy owner profit sharing entitlement is treated as an expense in the financial statements.

Allocation of operating profit and unvested policyholder benefits

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 note 1(o).

Comparative period policy

Policy liabilities are obligations arising from life insurance policies. These amounts, 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 in the Balance Sheet and change in policy liabilities disclosed in the Income Statement have been calculated using the MoS methodology in line with guidance provided by Actuarial Standard 1.03 Valuation Standard issued by the Life Insurance Actuarial Standards Board.

1. Significant accounting policies (continued)

(v) Policy liabilities (continued)

Comparative period policy (continued)

Policy liabilities are measured at net present values of estimated future cash flows (the projection method) or, where the result would not be materially different, as the accumulated benefits available to policy owners (the accumulation method).

(w) 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.

(x) Outside beneficial interests

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Current period policy

Outside beneficial interests in managed investment schemes and other trusts which are consolidated are recognised as financial liabilities at fair value. 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 in non-banking interest expense.

Comparative period policy

Outside equity interests in managed investment schemes and other trusts are 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 outside interests disclosed separately in the Income Statement.

(y) Subordinated notes

Subordinated notes are initially recognised at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost. Interest is charged to the Income Statement using the effective interest method.

(z) Preference shares

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Current period policy

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.

Comparative period policy

Preference share capital is recognised as equity at the principal amount less capital raising costs. Dividends are reflected as distributions to equity holders and are recognised on an effective yield basis.

(aa) Share capital

(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 statements, disclosure of the declaration is made in the financial statements 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.

(ab) 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, a provision is recognised.

Contingent assets are not recognised in the Balance Sheet but are disclosed in the financial report when inflows are probable. If inflows become virtually certain, an asset is recognised.

The amount disclosed as a contingent liability or contingent asset is the best estimate of the settlement or inflow.

(ac) 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.

1. Significant accounting policies (continued)

(ad) 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 statements 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.

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 statements.

(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 as described in note 1(v).

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) 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 and claims incurred but not enough reported 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.

(iv) 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 statements 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.

1. Significant accounting policies (continued)

(ad) Revenue (continued)

Insurance activities (continued)

(iv) Investment revenue (continued)

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. 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

(v) 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 is recognised as the service is provided. Refer to note 36(c) for further details on the funds maintained by the General Insurance subsidiaries within the Group.

(vi) 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.

(ae) Acquisition costs

General Insurance activities

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

Acquisition costs are deferred and recognised as assets in accordance with note 1(o).

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.

Life Insurance activities

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Current period policy

(i) Life insurance contracts

The value and future recovery of acquisition costs are determined according to 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 policy liabilities.

Acquisition losses are recognised at inception in the Income Statement.

(ii) Life investment contracts

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

Comparative period policy

Acquisition costs, being the fixed and variable costs of acquiring new business, include commission, certain advertising, policy issue and underwriting costs, agency expenses and other sales costs. The actual acquisition costs incurred are recognised in the Income Statement.

(i) Policy acquisition costs

Policy liabilities are determined by the Appointed Actuary after taking into account the value and future recovery of acquisition costs resulting in policy liabilities being lower than otherwise, and those costs being amortised over the period that they will be recoverable. The deferral and amortisation of acquisition costs of the Statutory Funds are recognised in the Income Statements within '(increase)/decrease in net policy liabilities'.

The acquisition costs deferred are determined as the lower of actual costs incurred and the allowance for the recovery of those costs from the premiums or policy charges (as appropriate for each policy class). The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative. Acquisition losses are recognised at inception to the extent this situation arises.

1. Significant accounting policies (continued)

(ae) Acquisition costs (continued)

Life Insurance activities (continued)

Comparative period policy (continued)

(ii) Other acquisition costs

Commission expense, brokerage, distribution fees and overhead expenses incurred in selling new business through the Shareholder Fund that are not recovered by specific initial fee income are deferred.

Where future profits are expected to be sufficient to ensure recovery, the deferred costs are included in the Balance Sheet as Other Assets and amortised to the Income Statement in line with the delivery of the underlying investment management service.

(af) 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, Motor Accident Authority contribution, 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.

(ag) Claims expense

General Insurance activities

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

As disclosed at note 2, the Group adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 50.

Current period policy

(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.

Comparative period policy

(i) Life insurance contracts

Claims on non-investment-linked business are recognised when the liability to the policy owner under the policy contract has been established.

(ii) Life investment contracts

Claims under investment-linked business are recognised when the policy ceases to participate in the earnings of the fund.

(ah) 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.

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.

(ai) 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 (Actuarial Standard 1.04: Valuation Standard).

(aj) 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 statements. 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.

1. Significant accounting policies (continued)

(aj) Income tax (continued)

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.

Accounting Standard 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 consolidations

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out at note 44.

The Company and each of its own wholly-owned subsidiaries recognise the current and deferred tax amounts applicable to the transactions undertaken by it, as if it continued to be a separately taxable entity in its own right, reasonably adjusted for certain intragroup transactions. The Company recognises the entire 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 as an equity contribution to or distribution from the subsidiary.

The tax-consolidated group has entered into a tax sharing agreement that requires wholly-owned subsidiaries to make contributions to the 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 intercompany assets and liabilities, at call.

The head entity, together with the other members of the consolidated group, have also, via the tax sharing agreement, provided for the determination of income tax liabilities between the entities should the 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.

(ak) 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 Australian Tax Office ('ATO'). 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 ATO 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 ATO are classified as operating cash flows.

(al) 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.

(am) 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.

Notes to the Financial Statements

for the year ended 30 June 2006

2. Change in accounting policy

In the current financial year, the Group adopted the following standards as a result of the transition to AIFRS:

- AASB 132 *Financial Instruments: Disclosure and Presentation*
- AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 4 *Insurance Contracts*
- AASB 1023 *General Insurance Contracts*
- AASB 1038 *Life Insurance Contracts*

These changes in accounting policy have been adopted in accordance with the transition rules for AIFRS contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139 and for insurance contracts within the scope of AASB 4, AASB 1023 and AASB 1038.

A description of the changes in accounting policies from adopting these standards and the adjustments to the opening Balance Sheet at 1 July 2005 are set out in Part B of note 50.

3. Accounting estimates and judgements

Management have discussed with the Audit Committee, the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. 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.

(a) Key sources of estimation uncertainty

Impairment of goodwill

The Group assesses whether goodwill is impaired at least annually. The assessment involves estimations of the recoverable amount of the cash-generating units to which the goodwill is allocated. Refer note 19.

Banking collective provision for impairment

The Banking segment regularly determines the level of collective provision required over its loans, advances and other receivables. The estimations are based, in part, on historical write-off experience and internal default experience. The provision is also adjusted for model risk. Refer note 16.

General Insurance outstanding claims liability

The General Insurance segment records a liability for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported. In calculating the estimated cost of unpaid claims, a variety of estimation techniques are used, generally based upon statistical analyses of historical internal and industry experience. The ultimate net outstanding claims liability also includes an additional risk margin to allow for the uncertainty within the estimation process. Refer notes 25 and 36.

The above estimations impact on the valuation of assets arising from reinsurance contracts and other recoveries and deferred acquisition costs.

Life Insurance gross policy liabilities

The Wealth Management segment records a liability for the estimated cost of policy liabilities for life insurance contracts. Statistical or mathematical methods are used in calculating the estimate, taking into account the risks and uncertainties of the particular classes of life insurance business written. Refer note 26 and 37.

(b) Critical accounting judgements in applying the Group's accounting policies

Refer to notes 35(l), 36(h) and 37(i) for critical accounting judgements that apply to each major line of business.

4. Segment reporting

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

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	Home and motor insurance, personal effects cover, commercial insurance, compulsory third party insurance and workers' compensation services.
Wealth Management	Life insurance and superannuation administration services, funds management, financial planning and funds administration.
Other	Treasury and property management services.

Notes to the Financial Statements

for the year ended 30 June 2006

4. Segment reporting (continued)

(a) Business segments (continued)

	Business Banking $m	Retail Banking $m	General Insurance $m	Wealth Management $m	Other $m	Eliminations/ unallocated $m	Consolidated $m
2006							
Revenue from outside the Group	1,279	1,570	3,556	988	281	18	7,692
Inter-segment revenue	66	740	-	-	1,387	(2,193)	-
Total segment revenue	1,345	2,310	3,556	988	1,668	(2,175)	7,692
Segment result	**263**	**198**	**691**	**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	8,508	6,181	4,159	(1,039)	57,369
Unallocated assets							-
Total assets							57,369
Segment liabilities	15,350	22,545	6,199	5,902	4,041	(1,101)	52,936
Unallocated liabilities							-
Total liabilities							52,936
Investments in joint venture entities	-	-	138	-	-	-	138
Acquisitions of property, plant and equipment and intangible assets	10	30	73	4	6	-	123
Share of profits of associates and joint ventures included in segment result	-	-	25	-	-	-	25
Depreciation and amortisation expense	7	20	35	3	4	-	69
Impairment losses	27	7	-	-	-	-	34
Impairment losses reversed	(1)	(2)	-	-	-	-	(3)

4. Segment reporting (continued)

(a) Business segments (continued)

	Business Banking $m	Retail Banking $m	General Insurance $m	Wealth Management $m	Other $m	Eliminations/ unallocated $m	Consolidated $m
2005							
Revenue from outside the Group	1,101	1,458	3,548	796	240	-	7,143
Inter-segment revenue	32	677	-	-	1,050	(1,759)	-
Total segment revenue	1,133	2,135	3,548	796	1,290	(1,759)	7,143
Segment result	**248**	**178**	**660**	**238**	**38**	**15**	**1,377**
Unallocated revenue less unallocated expenses							-
Profit before tax							**1,377**
Income tax expense							(386)
Profit for the year							**991**
Segment assets	14,829	20,963	8,305	4,601	4,036	(246)	52,488
Unallocated assets							-
Total assets							52,488
Segment liabilities	13,880	20,345	6,067	3,730	3,927	(722)	47,227
Unallocated liabilities							-
Total liabilities							47,227
Investments in associates and joint venture entities	-	-	130	83	-	-	213
Acquisitions of property, plant and equipment and intangible assets	5	20	88	4	2	-	119
Share of profits of associates and joint ventures included in segment result above	-	-	28	-	-	-	28
Depreciation and amortisation expense	6	24	45	5	2	-	82
Impairment losses	20	10	-	-	-	-	30
Impairment losses reversed	(1)	(2)	-	-	-	-	(3)

(b) Geographical segments

The Group operates in one geographical area being Australia.

Notes to the Financial Statements

for the year ended 30 June 2006

5. Income

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Interest:				
controlled entities	-	-	26	31
other	3,251	2,900	2,677	2,231
Dividends:				
controlled entities	-	-	545	649
other	175	104	-	-
Rental income	30	28	-	-
General insurance revenue:				
direct premium	2,639	2,583	-	-
inwards reinsurance premium	5	4	-	-
reinsurance and other recoveries	315	316	-	-
reinsurance commission income	5	4	-	-
Life insurance revenue:				
direct premium	136	113	-	-
reinsurance recoveries revenue	20	22	-	-
Changes in net fair value of investments backing General Insurance liabilities:				
realised	12	22	-	-
unrealised	90	140	-	-
Changes in net fair value of investments backing Life Insurance liabilities:				
realised	124	151	-	-
unrealised	396	226	-	-
Trust distributions	79	85	-	-
Net profits on derivative and other financial instruments:				
realised	7	8	8	8
unrealised	(5)	2	4	2
Fees and commissions:				
controlled entities	-	-	517	419
other	254	284	191	217
Managed schemes revenue	132	123	-	-
Net gain on disposal of investments	-	-	-	4
Release of unused provisions	2	-	2	-
Intercompany management fees	13	4	-	-
Other revenue	12	24	7	4
	7,692	7,143	3,977	3,565
Disclosed in the Income Statements as:				
Banking interest revenue	2,887	2,527	2,705	2,262
General insurance premium revenue	2,644	2,587	-	-
Life insurance premium revenue	136	113	-	-
Banking fee and commission revenue	202	211	189	216
Reinsurance and other recoveries revenue	335	338	-	-
General insurance investment revenue	473	501	-	-
Life insurance investment revenue	805	586	-	-
Other revenue	210	280	1,083	1,087
	7,692	7,143	3,977	3,565
Banking interest expense	(2,039)	(1,740)	(1,777)	(1,559)
Banking fee and commission expense	(73)	(82)	(75)	(82)
	5,580	5,321	2,125	1,924

Notes to the Financial Statements

for the year ended 30 June 2006

6. Expenses

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Interest expense				
Controlled entities	-	-	15	20
Other persons	2,222	1,740	1,786	1,559
Total interest expense	2,222	1,740	1,801	1,579
Operating expenses				
Staff expenses	732	664	22	25
Total staff expenses	732	664	22	25
Equipment and occupancy expenses				
Depreciation				
Buildings	1	1	1	1
Plant and equipment	23	34	-	-
Leasehold improvements	8	9	-	-
Total depreciation	32	44	1	1
Loss on disposal of property, plant and equipment	-	1	-	-
Operating lease rentals	49	45	22	18
Other	18	14	7	7
Total equipment and occupancy expenses	99	104	30	26
Other expenses				
Hardware, software and data line expenses	44	45	21	21
Advertising and promotion expenses	73	68	26	25
Office supplies, postage and printing	64	65	27	27
Amortisation of software and franchise systems	37	38	-	-
Acquisition costs – insurance activities	159	126	-	-
Intra-group expenses	-	-	963	676
Financial expenses	113	97	42	40
Other	110	53	13	16
Total other expenses	600	492	1,092	805
Total operating expenses	1,431	1,260	1,144	856

Notes to the Financial Statements

for the year ended 30 June 2006

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
7. Auditors' remuneration				
Audit services				
Auditors of the Company				
KPMG Australia				
Audit and review of financial reports	3,808	2,545	1,608	811
Other regulatory audit services	1,048	528	98	322
	4,856	3,073	1,706	1,133
Other auditors				
Audit and review of financial reports	122	97	122	-
	4,978	3,170	1,828	1,133
Other services				
Auditors of the Company				
KPMG Australia				
AIFRS transition services	-	404	-	85
Taxation services	126	153	126	29
Assurance services	616	887	357	236
	742	1,444	483	350
Other auditors				
Assurance services	95	-	61	-
	837	1,444	544	350
8. Impairment losses on loans and advances				
Banking activities				
Impairment losses on loans and advances				
increase in general provision for impairment (note 16)	-	15	-	12
increase in collective provision for impairment (note 16)	5	-	4	-
increase in specific provision for impairment (note 16)	17	7	17	4
bad debts written-off	12	9	6	8
bad debts recovered	(3)	(3)	(3)	(3)
	31	28	24	21
General insurance activities				
Impairment losses on loans and advances				
increase in specific provision for impairment (note 16)	-	(5)	-	-
bad debts written-off	-	4	-	-
	-	(1)	-	-
Total impairment losses on loans and advances	31	27	24	21

9. Income tax

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
(a) Income tax expense				
Recognised in the Income Statement				
Current tax expense				
Current year	390	350	112	117
Adjustments for prior years	-	(14)	(2)	(8)
	390	336	110	109
Deferred tax expense				
Origination and reversal of temporary differences	40	50	6	11
Total income tax expense in Income Statement	430	386	116	120
Numerical reconciliation between income tax expense and pre-tax net profit				
Profit before tax	1,346	1,377	933	1,032
Income tax using the domestic corporation tax rate of 30% (2005: 30%)	404	413	280	310
Increase in income tax expense due to:				
Non-deductible expenses	6	10	5	10
Imputation gross up on dividends received	5	8	-	-
Statutory funds	36	-	-	-
Other	5	9	-	-
Decrease in income tax expense due to:				
Income tax offsets and credits	(19)	(28)	-	-
Tax exempt revenues	(1)	(3)	-	-
Intercompany dividend	-	-	(163)	(195)
Other	-	(13)	-	(3)
	436	396	122	122
Under/(over) provision in prior years	(6)	(10)	(6)	(2)
Income tax expense on pre-tax net profit	430	386	116	120
Income tax expense by business unit				
Banking	148	141	116	120
General Insurance	195	166	-	-
Wealth Management	83	76	-	-
Other	4	3	-	-
	430	386	116	120

9. Income tax (continued)

(a) Income tax expense (continued)

Prima facie income tax expense includes an amount of $72 million (2005: $61 million) attributable to the life insurance company statutory funds. 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:

	2006 %	2005 %
Class of business		
Ordinary life insurance business	30	30
Complying superannuation	15	15
Controlled companies	30	30
Current pension business	Exempt	Exempt
Non-complying superannuation	47	47
Immediate annuity business	Exempt	Exempt
Retirement Savings Account business	15	15
Other business (including accident and disability)	30	30
Shareholder funds	30	30

	Consolidated		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Deferred tax recognised directly in equity				
Relating to equity settled transactions	1	-	-	-
Relating to equity securities available for sale	-	2	-	-
Relating to cash flow hedges	11	-	13	-
	12	2	13	-

(b) Current tax liabilities

The current tax liability for the Group of $136 million (2005: $182 million) and for the Company of $136 million (2005: $182 million) represent the amount of income taxes payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability initially recognised by the members of the tax-consolidated group.

Tax payments during the year totalled $437 million (2005: $258 million).

Notes to the Financial Statements

for the year ended 30 June 2006

9. 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	
	2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m
Consolidated						
Property, plant and equipment	23	17	(4)	(12)	19	5
Intangible assets	-	-	(2)	-	(2)	-
Investment property	-	8	-	(10)	-	(2)
Other investments	-	6	(205)	(154)	(205)	(148)
Deposits, notes, bonds and borrowings	-	3	-	-	-	3
Employee benefits	23	25	-	(1)	23	24
Provisions	115	99	(3)	-	112	99
Other items	45	10	(60)	(46)	(15)	(36)
Tax assets/(liabilities)	206	168	(274)	(223)	(68)	(55)
Set off of tax	(206)	(168)	206	168	-	-
Net tax assets/(liabilities)	-	-	(68)	(55)	(68)	(55)
Company						
Property, plant and equipment	3	3	-	(9)	3	(6)
Other investments	-	-	(38)	(10)	(38)	(10)
Deposits, notes, bonds and borrowings	-	3	-	-	-	3
Employee benefits	-	2	-	-	-	2
Provisions	40	31	-	-	40	31
Other items	25	2	(31)	(20)	(6)	(18)
Tax assets/(liabilities)	68	41	(69)	(39)	(1)	2
Set off of tax	(68)	(39)	68	39	-	-
Net tax assets/(liabilities)	-	2	(1)	-	(1)	2

There are no unrecognised deferred tax assets and liabilities.

(d) Tax consolidation

Suncorp-Metway Ltd and its wholly-owned Australian subsidiaries have elected to form a tax-consolidated group from 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(aj).

On adoption of the tax consolidation legislation, the entities in the tax-consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Suncorp-Metway Ltd.

Under the tax sharing agreement, the wholly-owned entities fully compensate the Company for any current tax payable assumed. The amounts receivable/payable under the agreement are at call.

A tax benefit of $nil (2005: $8 million) from the elections provided by the consolidation legislation has been recognised in the year, and is included in 'Under/(over) provision in prior years' shown in note 9(a).

10. Earnings per share

Earnings per share is calculated as described in note 1(am).

	Consolidated 2006 Cents	2005 Cents
Basic earnings per share	166.61	160.51
Diluted earnings per share	166.56	160.39

	Number of shares	
Weighted average number of ordinary shares		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	549,799,584	539,531,965
Weighted average number of potential ordinary shares relating to:		
options on ordinary shares	165,565	393,770
partly paid ordinary shares	(99)	9,841
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	549,965,050	539,935,576

The 2,500,000 preference shares recognised in liabilities (2005: equity) are not considered to be either ordinary or potential ordinary shares. They are anti-dilutive in nature as the dividends are payable at 6.25% pa which exceeds basic earnings per share. Therefore, preference shares have not been included in either basic or diluted earnings per share.

	Consolidated 2006 $m	2005 $m
Profit attributable to ordinary shareholders		
Reconciliations of earnings used in calculating basic and diluted earnings per share		
Profit attributable to equity holders of the parent	916	882
Less preference share dividends (when classified as equity)	-	(16)
Earnings used in calculating basic and diluted earnings per share	916	866

11. Cash and cash equivalents

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Cash and balances with the central bank	212	170	138	178
Other money market placements	277	914	79	474
	489	1,084	217	652
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the Statements of Cash Flows as follows:				
Balances as above	489	1,084	217	652
Add: Receivables due from other banks	26	67	26	67
Less: Payables due to other banks	(120)	(66)	(120)	(66)
	395	1,085	123	653

Notes to the Financial Statements

for the year ended 30 June 2006

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
12. Trading securities				
Banking activities				
Interest bearing securities at fair value				
Bank bills, certificates of deposits and other short term negotiable securities	3,773	3,396	3,773	3,396
Total trading securities	3,773	3,396	3,773	3,396

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

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
13. Investment securities				
Banking activities				
Investments				
Shares in subsidiaries at cost (note 44)	-	-	2,095	2,052
Shares held in trust	3	2	-	-
	3	2	2,095	2,052
General Insurance activities				
Quoted investments at fair value				
Corporate bonds	797	996	-	-
Government and semi-government securities	2,046	2,100	-	-
Shares in other companies	1,077	989	-	-
	3,920	4,085	-	-
Unquoted investments at fair value				
Short term negotiable securities	727	581	-	-
Other interest bearing securities	359	614	-	-
	1,086	1,195	-	-
Investments not backing General Insurance liabilities				
Unquoted investments at fair value				
Units in management investment scheme	98	-	-	-
Property trust	5	-	-	-
	103	-	-	-
	5,109	5,280	-	-
Wealth Management activities				
Life insurance activities				
Investments at fair value				
Equity securities	3,294	2,231	-	-
Debt securities	2,027	2,028	-	-
Property securities	475	392	-	-
Other	-	(2)	-	-
	5,796	4,649	-	-
Funds management activities				
Unlisted unit trusts and unlisted managed investment schemes at fair value	18	27	-	-
	5,814	4,676	-	-
Total investment securities	10,926	9,958	2,095	2,052

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

14. 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 1(c). All associates and joint ventures are incorporated in Australia. Information relating to the associates and joint ventures is set out below.

Name of entity	Principal activity	Ownership interest		Consolidated carrying amount	
		2006 %	2005 %	2006 $m	2005 $m
Associates					
SIM World Equities PST [1]	Investment scheme	-	28.67	-	82
Suncorp Metway Wholesale Balanced Account Fund [2]	Investment scheme	-	43.98	-	1
				-	83
Joint ventures					
RACQ Insurance Ltd [3][4]	Insurance	50.00	50.00	106	102
RAA – GIO Insurance Holdings Limited [3]	Insurance	50.00	50.00	14	12
Australand Land and Housing No 5 (Hope Island) Pty Ltd [5]	Property investment	50.00	50.00	6	5
Australand Land and Housing No 7 (Hope Island) Pty Ltd [5]	Property investment	50.00	50.00	6	5
Australand Land and Housing No 8 (Hope Island) Pty Ltd [5]	Property investment	50.00	50.00	6	6
				138	130
				138	213

Notes

[1] Investment was held by Suncorp Life & Superannuation Ltd.

[2] Investment was held by Suncorp Metway Investment Management Ltd.

[3] Investments held by GIO Insurance Investment Holdings A Pty Ltd.

[4] RACQ Insurance Ltd has a 31 December balance date.

[5] Investments held by Suncorp Property Development Equity Fund.

Notes to the Financial Statements

for the year ended 30 June 2006

14. Investments in associates and joint ventures (continued)

	Consolidated 2006 $m	Consolidated 2005 $m
(a) Investments in associates		
Results of associates		
Share of associates' profit before income tax	-	0
Share of income tax expense	-	0
Share of associates' net profit – as disclosed by associates	-	0
Dividends received/receivable	-	(1)
Disposal of associates	(83)	-
Summary financial information of associates		
Revenues (100%)	-	0
Profit/(loss) (100%)	-	0
Share of associates' net profit (loss) recognised	-	0
Total assets (100%)	-	290
Total liabilities (100%)	-	0
Net assets as reported by associates (100%)	-	290
Share of associates' net assets equity accounted	-	83

There are no commitments or contingent liabilities of the associates that require disclosure.

	Consolidated 2006 $m	Consolidated 2005 $m
(b) Investments in joint ventures		
Movements in carrying amounts of joint ventures		
Opening balance	130	104
Share of profits after income tax	25	28
Dividends received/receivable	(19)	(14)
Increased investments in joint ventures	2	12
Closing balance	138	130
Results of joint ventures		
Share of joint ventures' profit before income tax	35	39
Share of income tax expense	(10)	(11)
Share of joint ventures' net profit – as disclosed by joint ventures	25	28
Dividends received/receivable	(19)	(14)
Summary financial information of joint ventures		
Revenues (100%)	598	555
Profit/(loss) (100%)	50	56
Share of joint ventures' net profit (loss) recognised	25	28
Total assets (100%)	1,062	974
Total liabilities (100%)	(877)	803
Net assets as reported by joint ventures (100%)	185	171
Share of joint ventures' net assets equity accounted	138	130

There are no material commitments and no contingent liabilities of the joint ventures that require disclosure.

15. Loans, advances and other receivables

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Banking activities				
Housing loans [1]	20,812	18,865	20,807	15,134
Consumer loans	822	645	822	645
Business loans	16,835	15,244	14,884	13,752
Structured finance	6	6	6	6
Other lending	16	30	17	55
	38,491	34,790	36,536	29,592
Provision for impairment (note 16)	(124)	(155)	(115)	(146)
	38,367	34,635	36,421	29,446
General Insurance activities				
Premiums outstanding	624	579	-	-
Provision for impairment – specific (note 16)	-	(1)	-	-
Provision for impairment – general (note 16)	-	(7)	-	-
	624	571	-	-
Investment revenue receivable	22	7	-	-
Insurance managed funds receivable	44	69	-	-
Insurance recoveries and other receivables	479	444	-	-
Provision for impairment – specific (note 16)	-	(2)	-	-
Provision for impairment – general (note 16)	-	(5)	-	-
	1,169	1,084	-	-
Life Insurance activities				
Premiums outstanding	6	5	-	-
Investment revenue receivable	65	36	-	-
Reinsurance recoveries receivable	5	6	-	-
Other	21	5	-	-
	97	52	-	-
Total loans, advances and other receivables	39,633	35,771	36,421	29,446

Notes

[1] Includes securitised home loan balances of $5.4 billion (2005: $3.7 billion) which has an associated securitised liability of $5.7 billion (2005: $3.9 billion).

16. Provision for impairment

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Banking activities				
General provision				
Balance at the beginning of the financial year	138	123	130	118
Charge against Income Statement (note 8)	-	15	-	12
Effect of change in accounting policy	(138)	-	(130)	-
Balance at the end of the financial year	-	138	-	130
Collective provision				
Balance at the beginning of the financial year	-	-	-	-
Effect of change in accounting policy	98	-	92	-
Balance at the beginning of the financial year – restated	98	-	92	-
Charge against Income Statement (note 8)	5	-	4	-
Balance at the end of the financial year	103	-	96	-
Specific provision				
Balance at the beginning of the financial year	17	19	16	19
Effect of change in accounting policy	4	-		-
Balance at the beginning of the financial year – restated	21	19	16	19
Charge against Income Statement (note 8)	17	7	17	4
Bad debts written-off	(17)	(9)	(14)	(7)
Balance at the end of the financial year	21	17	19	16
Total provision for impairment – Banking activities	124	155	115	146
General Insurance activities				
General provision				
Balance at the beginning of the financial year	12	12	-	-
Effect of change in accounting policy	(12)	-	-	-
Balance at the end of the financial year	-	12	-	-
Specific provision				
Balance at the beginning of the financial year	3	8	-	-
Effect of change in accounting policy	(3)	-	-	-
Balance at the beginning of the financial year – restated	-	8	-	-
Charge against Income Statement (note 8)	-	(5)	-	-
Balance at the end of the financial year	-	3	-	-
Total provision for impairment – General Insurance activities	-	15	-	-
The following classes of loans are included in the total provision for impairment – Banking activities:				
Restructured loans				
Carrying amount	5	17	5	17
Specific provision	0	10	0	10
Real estate assets acquired through the enforcement of security	-	-	-	-
Other assets acquired through enforcement of security	-	-	-	-

17. Property, plant and equipment

	Land $m	Buildings $m	Leasehold improvements $m	Plant and equipment $m	Capital works in progress $m	Total $m
2006						
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

Notes to the Financial Statements

for the year ended 30 June 2006

17. Property, plant and equipment (continued)

	Land $m	Buildings $m	Leasehold improvements $m	Plant and equipment $m	Capital works in progress $m	Total $m
2005						
Consolidated						
Cost						
Balance at the beginning of the financial year	4	42	82	361	29	518
Effect of change in accounting policy	-	-	-	(136)	(23)	(159)
Balance at the beginning of the financial year – restated	4	42	82	225	6	359
Additions	-	-	1	28	16	45
Disposals	-	-	-	(10)	-	(10)
Transfers between categories	-	-	-	6	(6)	-
Balance at the end of the financial year	4	42	83	249	16	394
Depreciation						
Balance at the beginning of the financial year	-	13	71	250	-	334
Effect of change in accounting policy	-	-	-	(75)	-	(75)
Balance at the beginning of the financial year – restated	-	13	71	175	-	259
Depreciation charge for the year	-	1	8	28	-	37
Disposals	-	-	-	(7)	-	(7)
Balance at the end of the financial year	-	14	79	196	-	289
Carrying amounts						
Carrying amount at the beginning of the financial year	4	29	11	111	29	184
Carrying amount at the beginning of the financial year – restated	4	29	11	50	6	100
Carrying amount at the end of the financial year	4	28	4	53	16	105
Company						
Cost						
Balance at the beginning of the financial year	4	42	7	32	-	85
Effect of change in accounting policy	-	-	-	(6)	-	(6)
Balance at the beginning of the financial year – restated	4	42	7	26	-	79
Disposals	-	-	-	(1)	-	(1)
Balance at the end of the financial year	4	42	7	25	-	78
Depreciation						
Balance at the beginning of the financial year	-	13	7	31	-	51
Effect of change in accounting policy	-	-	-	(6)	-	(6)
Balance at the beginning of the financial year – restated	-	13	7	25	-	45
Depreciation charge for the year	-	1	-	-	-	1
Disposals	-	-	-	(1)	-	(1)
Balance at the end of the financial year	-	14	7	24	-	45
Carrying amounts						
Carrying amount at the beginning of the financial year	4	29	-	1	-	34
Carrying amount at the beginning of the financial year – restated	4	29	-	1	-	34
Carrying amount at the end of the financial year	4	28	-	1	-	33

An independent valuation of the Group's land and buildings was carried out as at 31 December 2003 on the basis of open market values for existing use and provided a valuation of $50 million (Company: $50 million). As land and buildings are recorded at cost, the valuation has not been brought to account.

18. Investment property

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
General Insurance activities				
Unquoted investments at fair value				
Freehold land and buildings	196	156	-	-
Total investment property	196	156	-	-
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	156	-	-	-
Effect of change in accounting policy	-	140	-	-
Balance at the beginning of the financial year – restated	156	140	-	-
Additions	6	5	-	-
Fair value adjustments	34	11	-	-
Balance at the end of the financial year	196	156	-	-

During the financial year ended 30 June 2006, $30 million (2005: $28 million) was recognised as rental income in the Income Statement and $18 million (2005: $19 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 2006 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 $95 million (2005: $71 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 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Less than one year	8	8	-	-
Between one and five years	34	33	-	-
More than five years	56	64	-	-
	98	105	-	-

19. Intangible assets

	Goodwill $m	Franchise agreements $m	Software $m	Total $m
2006				
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
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	-	-	-	-

19. Intangible assets (continued)

	Goodwill $m	Franchise agreements $m	Software $m	Total $m
2005				
Consolidated				
Cost				
Balance at the beginning of the financial year	1,211	-	-	1,211
Effect of change in accounting policy	-	15	135	150
Balance at the beginning of the financial year – restated	1,211	15	135	1,361
Acquisitions through business combinations	51	-	-	51
Other acquisitions	-	-	23	23
Disposals	-	-	(5)	(5)
Balance at the end of the financial year	1,262	15	153	1,430
Amortisation and impairment losses				
Balance at the beginning of the financial year	227	-	-	227
Effect of change in accounting policy	-	4	66	70
Balance at the beginning of the financial year – restated	227	4	66	297
Amortisation for the year	-	-	37	37
Disposals	-	-	(5)	(5)
Balance at the end of the financial year	227	4	98	329
Carrying amounts				
Carrying amount at the beginning of the financial year	984	-	-	984
Carrying amount at the beginning of the financial year – restated	984	11	69	1,064
Carrying amount at the end of the financial year	1,035	11	55	1,101
Company				
Cost				
Balance at the beginning of the financial year	-	-	-	-
Effect of change in accounting policy	-	-	6	6
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	-	-	-	-
Effect of change in accounting policy	-	-	6	6
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 2004 on the basis of current fair market value and provided a valuation range of $34 million to $39 million. As franchise systems are recorded at cost, the valuation has not been brought to account [refer note 1(n)].

19. Intangible assets (continued)

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
(a) Amortisation and impairment charge				
The amortisation and impairment charge is recognised in the following line items in the Income Statement:				
Amortisation of software and franchise systems	37	38	-	-
	37	38	-	-

(b) Impairment loss

The liability adequacy test ('LAT') conducted as at 1 July 2005 resulted in an opening balance write-down to General Insurance goodwill of $3 million. The LATs conducted during the 2006 financial year did not require any further adjustment to goodwill. Refer notes 36(d) and 50 Part B (ii).

(c) Impairment tests for cash-generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
General Insurance unit	1,044	1,026	-	-
Other units	9	9	-	-
	1,053	1,035	-	-

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 are 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 2006, 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 2006, 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.

20. Other assets

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Deferred expenditure – lease brokerage	25	24	1	4
Deferred acquisition costs on insurance policies	212	212	-	-
Unrealised gains on derivative hedging positions	40	6	40	6
Accrued interest receivable	147	158	81	64
Prepayments	17	16	15	15
Sundry assets	176	147	78	55
Total other assets	617	563	215	144

21. Deposits and short term borrowings

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Secured				
Long term securities issued matured and unclaimed	-	1	-	-
Unsecured				
Call deposits	9,704	8,808	9,704	8,809
Term deposits	6,877	6,246	6,877	6,246
Short term securities issued	7,721	6,819	7,721	6,819
Offshore borrowings	54	3,646	54	3,646
Offshore borrowings designated as fair value through profit or loss	2,273	-	2,273	-
Long term securities issued maturing within 12 months	1,054	1,637	1,054	1,637
	27,683	27,156	27,683	27,157
Total deposits and short term borrowings	27,683	27,157	27,683	27,157

The secured borrowings are secured by charges over various assets of certain subsidiaries amounting to $0 million (2005: $9 million).

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Liabilities designated as fair value through profit or loss:				
Unsecured				
Balance at the beginning of the financial year	-	-		-
Book value of current deals	2,273	-	2,273	-
Balance at the end of the financial year	2,273	-	2,273	-

As described in note 1(q)(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 $15 million (2005: $129 million).

22. Payables and other liabilities

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Unpresented bank cheques	60	48	60	48
Accrued interest payable	221	183	152	137
Sundry creditors and accrued expenses	495	351	156	259
Unrealised losses on derivative hedging positions	5	462	35	462
Total payables and other liabilities	781	1,044	403	906

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.

23. Employee benefits

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Defined benefit reserve				
Surplus of plan assets over defined benefit obligations	3	2	-	-
Employee benefits and related on-costs liabilities				
Included in Provision for other (note 24)	7	5	-	-
Provision for employee benefits – current (note 24)	104	106	-	7
Provision for employee benefits – non-current (note 24)	28	26	-	-
	139	137	-	7

As explained in note 1(r), the amounts for long service leave are measured at their present values. The following assumptions were adopted in measuring present values:

	Consolidated 2006	Consolidated 2005
Weighted average rate of increases in annual employee benefits to settlement of the liabilities	4.0%	4.0%
Weighted average discount rate	5.78%	5.10%
Weighted average term to settlement of liabilities	4 years	4 years
Employee numbers		
Average number of employees during the financial year	8,857	8,523

(a) Defined benefit superannuation fund

On 1 October 1998 the then SUNCORP Staff (Closed) Superannuation Plan was re-named the Suncorp Staff Superannuation Plan ('Staff Plan') and contributions from that date no longer purchased defined benefits, but accumulation benefits. Both the former Suncorp Metway QIDC Staff Superannuation Fund and the QIDC Superannuation Scheme transferred into the Suncorp Staff Superannuation Plan at that same date. Some members of the former SUNCORP Staff (Closed) Superannuation Plan and the QIDC Superannuation Scheme elected to retain their benefits accrued to 30 September 1998 in defined benefit form. Further, some members of the AMP Officers' Provident Fund have transferred into the Staff Plan, following the GIO acquisition, with a defined benefit attaching. Accordingly, the Suncorp Staff Superannuation Plan is still technically a defined benefit plan, although no contributions since October 1998 other than the transfer from the AMP Officers' Provident Fund have actually purchased defined benefits.

In the case of the defined benefit fund, an actuarial assessment of the fund is made each year. The last review of the Suncorp Staff Superannuation Plan, effective 30 June 2006, was undertaken by Mr P.D. Francis, Bsc, DipFP, FIAA and a report issued on 28 July 2006.

23. Employee benefits (continued)

(a) Defined benefit superannuation fund (continued)

	Consolidated 2006 $m	Consolidated 2005 $m
Present value of the Suncorp Staff Superannuation Plan (formerly SUNCORP Staff (Closed) Superannuation Plan)		
Fair value of plan assets at 30 June 2006 (2005: 30 June 2005)	9	8
Defined benefit obligations as at 30 June 2006 (2005: 30 June 2005)	(6)	(6)
Surplus/(asset) recognised in the Balance Sheet	3	2
Contribution recommendations (per year)	-	-
Changes in the present value of the defined benefit obligation:		
Opening defined benefit obligation	6	6
Interest cost	1	-
Actuarial losses/(gains)	-	1
Benefits paid	(1)	(1)
	6	6
Changes in the fair value of plan assets:		
Opening fair value of plan assets	8	8
Expected return	1	1
Actuarial gains/(losses)	1	-
Benefits paid	(1)	(1)
	9	8
	%	**%**
Major categories of funds assets as a percentage of total fund assets:		
Australian shares	41	40
International shares	20	20
Listed property	10	10
Fixed income	19	20
Other	10	10
	$m	**$m**
Expense recognised in the Income Statement		
Actuarial gains/(losses)	1	(1)
	1	(1)
The income/(expense) is recognised in the following line items in the Income Statement:		
Other income	1	-
Staff expenses	-	(1)
	1	(1)
Actual return on fund assets	1	1
	%	**%**
Principal actuarial assumptions:		
(at the Balance Sheet date expressed as weighted averages)		
Discount rate at 30 June	5.0%	4.4%
Expected return on fund assets at 30 June	7.0%	7.0%
Future salary increases	4.0%	4.0%

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

23. Employee benefits (continued)

(b) Defined contribution superannuation fund

Employer contributions to the Suncorp Staff Superannuation Plan recognised as an expense during the year ended 30 June 2006 were $59 million (2005: $43 million).

(c) Share based payments

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').

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.

Features of the plans currently in operation are as follows:

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 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 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.
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.

23. Employee benefits (continued)

(c) Share based payments (continued)

Feature	EESP	DESP	EPSP	NEDSP
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. 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 allocation 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.	Not applicable.

23. Employee benefits (continued)

(c) Share based payments (continued)

Feature	EESP	DESP	EPSP	NEDSP
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 date of shares held in the Plan.	Full entitlement from date of shares held in the Plan.	Full entitlement from date of vesting.	Full entitlement from date of shares 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 employees have the right to vote from the date shares are held in the Plan.

23. Employee benefits (continued)

(c) Share based payments (continued)

Options

At 30 June 2006 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 2006 [3]	Number of options held at 30 June 2005
01 Oct 2000	31 Mar 2005	01 Oct 2005	8.89	10.85	-	153,000
01 Oct 2000	31 Mar 2003	01 Oct 2005	8.89	10.00	-	31,400
01 Oct 2000	31 Mar 2004	01 Oct 2005	8.89	10.49	-	34,900
01 Oct 2000	31 Mar 2005	01 Oct 2005	8.89	11.02	-	74,300
20 Sep 2001	31 Mar 2004	20 Sep 2006	11.62	12.20	-	116,666
20 Sep 2001	31 Mar 2005	20 Sep 2006	11.62	13.13	-	285,667
20 Sep 2001	31 Mar 2006	20 Sep 2006	11.62	13.94	289,667	306,333
22 Apr 2002	31 Oct 2005	22 Apr 2007	12.30	[4]	-	116,667
22 Apr 2002	31 Oct 2006	22 Apr 2007	12.30	[4]	116,666	116,666
					406,333	1,235,599

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) During the year 815,266 options (2005: 2,934,117) were exercised under the Executive Option Plan. All options expire on the earlier of their expiry date or termination of the employee's employment unless otherwise approved by the Board. In addition to those options shown above, 14,000 (2005: 39,167) options expired.

(4) The Company has adopted 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.

23. Employee benefits (continued)

(c) Share based payments (continued)

Options (continued)

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

	Weighted average exercise price 2006 $	Number of options 2006	Weighted average exercise price 2005 $	Number of options 2005
Outstanding at the beginning of the period	11.10	1,235,599	11.47	4,208,883
Forfeited during the period	12.30	(14,000)	11.12	(39,167)
Exercised during the period	10.72	(815,266)	11.63	(2,934,117)
Outstanding at the end of the period	11.82	406,333	11.10	1,235,599
Exercisable at the end of the period		289,667		695,933

There were no options granted during the financial year as the Company has ceased to issue options under the Executive Option Plan (2005: nil).

The options outstanding at 30 June 2006 have an exercise price in the range of $11.62 to $12.30 and a weighted average contractual life of 0.4 years.

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 Company Directors under an employee incentive scheme without specific shareholder approval.

The market price of the Company's shares at 30 June 2006 was $19.35 (2005: $20.11). For details of the options exercised during the year, refer note 32(b). The weighted average share price at the dates of exercise of the options was $19.98 (2005: $15.34).

At the date of this report unissued fully paid ordinary shares of the Company under the Executive Option Plan totalled 406,333 and were comprised of the following:

Expiry date	Exercise price of option $	Number of options held at 30 June 2006
20 Sep 2006	11.62	289,667
22 Apr 2007	12.30	116,666
		406,333

23. Employee benefits (continued)

(c) Share based payments (continued)

Shares

Details of the deferred ordinary shares granted 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 shares $	Number of shares 30 June 2006	Number of shares 30 June 2005
13 Dec 2002	12 Dec 2006	6.554	126,526	164,083
06 Jan 2003	05 Jan 2006	6.843	100,000	100,000
06 Jan 2003	05 Jan 2007	7.139	100,000	100,000
06 Jan 2003	05 Jan 2008	7.397	100,000	100,000
01 Oct 2003	30 Sep 2006	7.090	313,848	318,373
08 Dec 2003	30 Sep 2006	7.090	3,965	3,965
17 Feb 2004	30 Sep 2006	7.090	3,100	3,100
25 Feb 2004	30 Sep 2006	7.090	4,453	12,361
04 May 2004	30 Sep 2006	7.090	5,871	5,871
01 Jul 2004	30 Sep 2006	7.090	1,530	1,530
01 Aug 2004	30 Sep 2006	7.090	7,163	7,163
01 Sep 2004	30 Sep 2006	7.090	22,884	22,884
01 Oct 2004	30 Sep 2007	9.005	411,916	423,539
01 Feb 2005	30 Sep 2007	9.005	15,216	15,216
01 Mar 2005	30 Sep 2007	9.005	3,281	3,281
01 Oct 2005	30 Sep 2008	11.220	520,108	-
			1,739,861	1,281,366

The movement in the number of shares is as follows:

	Number of shares 2006	Number of shares 2005
Outstanding at the beginning of the period	1,281,366	819,262
Assigned during the period	530,477	477,468
Forfeited during the period	(49,011)	(14,959)
Released during the period	(22,971)	(405)
Outstanding at the end of the period	**1,739,861**	**1,281,366**

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 TSR. 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.

Notes to the Financial Statements

for the year ended 30 June 2006

23. Employee benefits (continued)

(c) Share based payments (continued)

Shares (continued)

	Measurement dates						
	13-Dec-02	06-Jan-03	06-Jan-03	06-Jan-03	01-Oct-03	01-Oct-04	01-Oct-05
Fair value at measurement date	$6.554	$6.843	$7.139	$7.397	$7.090	$9.005	$11.220
Share price	$10.76	$11.24	$11.24	$11.24	$11.95	$15.47	$19.71
Expected volatility (based on the Company's historic volatility)	22%	22%	22%	22%	22%	20%	20%
Vesting period	3 years	3 years	4 years	5 years	3 years	3 years	3 years
Dividend yield	4.2%	4.2%	4.2%	4.2%	5.0%	5.3%	4.7%
Risk-free interest rate (based on Australian Government bonds)	4.748%	4.860%	4.860%	4.860%	4.912%	5.172%	5.340%

The amount included in the consolidated Income Statement in relation to the deferred ordinary shares for the year ended 30 June 2006 was $5 million (2005: $3 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
2006 financial year	Various dates	767,945	Various, based on market value at date of issue	$15 million	$8 million
2005 financial year	Various dates	530,810	Various, based on market value at date of issue	$9 million	$6 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 $61,909 (2005: $384,544).

In addition, during the financial year $4 million (2005: $6 million) was recognised in the Income Statement of the Group to acquire shares to the value of $500 (2005: $1,000) for each employee eligible under the EESP. These shares will be issued in October 2006.

24. Provisions

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Employee benefits (note 23)	132	132	-	7
Directors' retirement benefits	1	2	1	2
Dividends and distributions	-	5	-	5
Other	21	62	6	52
Total provisions	154	201	7	66

Directors' retirement benefits

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

Dividends and distribution provision

Provision is made for ordinary dividends when they are declared, determined or publicly recommended by the directors on or before the end of the financial year but not yet distributed at balance date.

Other provisions

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

	Directors' retirement benefits $m	Dividends and distributions $m	Other $m	Total $m
2006				
Consolidated				
Balance at the beginning of the financial year	2	5	62	69
Provisions made during the year	-	916	24	940
Provisions used during the year	(1)	(921)	(65)	(987)
Balance at the end of the financial year	1	-	21	22
Company				
Balance at the beginning of the financial year	2	5	52	59
Provisions made during the year	-	920	8	928
Provisions used during the year	(1)	(925)	(54)	(980)
Balance at the end of the financial year	1	-	6	7
2005				
Consolidated				
Balance at the beginning of the financial year	2	5	11	18
Provisions made during the year	-	457	53	510
Provisions used during the year	-	(457)	(2)	(459)
Balance at the end of the financial year	2	5	62	69
Company				
Balance at the beginning of the financial year	2	5	1	8
Provisions made during the year	-	459	54	513
Provisions used during the year	-	(459)	(3)	(462)
Balance at the end of the financial year	2	5	52	59

25. Outstanding claims, unearned premiums and unexpired risk liabilities

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Outstanding claims – general insurance	4,249	4,172	-	-
Outstanding claims – life insurance	24	21	-	-
Unearned premiums – general insurance	1,375	1,345	-	-
Unexpired risk liabilities – general insurance	24	-	-	-
Total outstanding claims, unearned premiums and unexpired risk liabilities	5,672	5,538	-	-
(a) Outstanding claims liability – general insurance				
Gross central estimate – undiscounted	4,001	3,876	-	-
Risk margin	1,056	965	-	-
Claims handling costs	178	173	-	-
	5,235	5,014	-	-
Discount to present value	(986)	(842)	-	-
Gross outstanding claims liability – discounted	4,249	4,172	-	-
Current	1,160	1,167	-	-
Non-current	3,089	3,005	-	-
	4,249	4,172	-	-

Risk margin

Process for determining risk margin

The overall risk margin was determined allowing for the uncertainty of the outstanding claims estimate for each class of business as defined in note 36(i) 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 estimate of uncertainty is greater for long tail classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

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 (2005: 93-94%).

	Consolidated 2006 %	Consolidated 2005 %	Company 2006 %	Company 2005 %
Risk margins applied (allowing for diversification)				
Personal Short tail	20.8	17.8	-	-
Personal Long tail	24.3	24.2	-	-
Commercial Short tail	16.1	17.2	-	-
Commercial Long tail	39.2	34.1	-	-
Overall margin	28.2	26.4	-	-

25. Outstanding claims, unearned premiums and unexpired risk liabilities (continued)

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

Reconciliation of movement in discounted outstanding claims liability

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Opening net outstanding claims liability	3,736	3,462	-	-
Prior periods				
Claims payments	(683)	(641)	-	-
Discount unwind	139	128	-	-
Margin release on prior periods	(94)	(93)	-	-
Incurred claims due to changes in assumptions and experience	(400)	(266)	-	-
Change in discount rate	(58)	45	-	-
Change in claims handling expense rate	-	3	-	-
Current period				
Incurred claims	2,034	1,948	-	-
Claims payments	(913)	(850)	-	-
Closing net outstanding claims liability	3,761	3,736	-	-
Reinsurance recoveries on outstanding claims liability and other recoveries	488	436	-	-
Gross outstanding claims liability	4,249	4,172	-	-

Claims development tables

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

	2002 and prior $m	2003 $m	2004 $m	2005 $m	2006 $m	Total $m
Accident year						
Consolidated						
Estimate of ultimate claims cost:						
At end of accident year	3,289	711	696	800	812	
One year later	3,255	689	714	704		
Two years later	3,126	641	609			
Three years later	2,929	563				
Four years later	2,892					
Current estimate of cumulative claims cost	2,892	563	609	704	812	5,580
Cumulative payments	(2,057)	(235)	(142)	(91)	(43)	(2,568)
Outstanding claims – undiscounted	835	328	467	613	769	3,012
Discount	(211)	(52)	(78)	(116)	(164)	(621)
Outstanding claims – long tail	624	276	389	497	605	2,391
Outstanding claims – short tail						399
Claims handling expense						144
Risk margin						827
Total net outstanding claims liability						3,761
Reinsurance recoveries on outstanding claims liability and other recoveries						488
Total gross outstanding claims						4,249

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.

25. Outstanding claims, unearned premiums and unexpired risk liabilities (continued)

(b) Unearned premium liabilities

Reconciliation of movements in unearned premium liability

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Balance at the beginning of the financial year	1,345	1,322	-	-
Premiums written during the year	2,674	2,610	-	-
Premiums earned during the year	(2,644)	(2,587)	-	-
Balance at the end of the financial year	1,375	1,345	-	-

26. Gross policy liabilities

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Life insurance contract policy liabilities	2,348	-	-	-
Life investment contract policy liabilities	1,558	-	-	-
Life insurance business policy liabilities	-	3,244	-	-
Total gross policy liabilities	3,906	3,244	-	-

Policy liabilities are amounts which, when taken together with future premiums and investment earnings, are required to meet the payment of future benefits and expenses and for life insurance contracts, incorporate profit margins on existing business to be released when earned in future periods.

The effective date of the actuarial report on policy liabilities and solvency reserves is 30 June 2006. The actuarial report was prepared by Mr Rowan Ward, Appointed Actuary BSc FIAA, and indicates that the Appointed Actuary is 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 and with the standards of the Life Insurance Actuarial Standards Board ('LIASB').

Policy liabilities have been calculated in accordance with Actuarial Standard 1.04 'Valuation Standard' issued by the LIASB under Section 114 of *the Life Act*. For Life Insurance contracts, the Actuarial Standard requires 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 Standard requires the policy liabilities to be calculated in accordance with Australian 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	Bonuses
Investment account	Projection	Interest credits
Allocated pension	Projection	Interest credits
Lump sum risk	Projection	Expected claim payments
Income stream risk	Projection	Expected claim payments
Annuity	Projection	Annuity payments
Group		
Investment account	Projection	Interest credits
Lump sum risk	Accumulation	-
Income stream risk	Accumulation	-

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 and open disability income claims.

26. Gross policy liabilities (continued)

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

Assumption	Basis of assumption	Significant changes since 2005
Investment earnings	For participating business, assumed earning rates are determined having regard to the asset mix of the investment portfolio backing the product, 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. Pre-tax rates varied from 4.80% (2005: 4.10%) for the cash sub-funds to 8.60% (2005: 7.90%) for the balanced sub-funds and 9.80% (2005: 9.10%) for the equity sub-funds. All non-participating business uses an investment earnings and discount rate assumption of the risk-free rate. This has been determined from the government bond curve and varied (before tax) between 5.8% and 5.9% (2005: 5.1% and 5.4%).	The use of a risk-free rate, for risk products, as part of the introduction of AIFRS as at 1 July 2005.
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% (2005: 2.5%) per annum was assumed, taking into account the difference between long term government bonds and indexed government bonds for Australia.	No changes in approach.
Voluntary discontinuance	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% (2005: between 2% and 30%).	Assumed long term discontinuance rates for risk business reduced to reflect improvements in experience.
Surrender values	Surrender values are determined by applying the surrender bases current at the reporting date.	None.
Rates of taxation	The rates of taxation assumed are based on current income tax legislation applicable to the type of product.	None.
Mortality – risk products	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 Suncorp Life & Superannuation Limited's experience. Adjustments range from 76% (2005: 76%) to 160% (2005: 160%). Table IA95-97 was developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997.	None.
Mortality – annuitants	Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments for expected mortality improvement. Tables IM/IF80 were developed by the Institute of Actuaries and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982.	None.
Disability – lump sum	Disability rates on lump sum Total and Permanent Disablement policies have been based on industry experience with adjustments to reflect Suncorp Life & Superannuation Limited's experience. For trauma policies, assumed incidence rates are based on Australian population statistics with adjustments to reflect Suncorp Life & Superannuation Limited's experience.	Adjustments updated to reflect recent experience with a decrease in assumed rates.

26. Gross policy liabilities (continued)

Assumption	Basis of assumption	Significant changes since 2005
Disability – income	Disability rates on income policies have been determined using the IAD89-93 table with adjustments to reflect Suncorp Life & Superannuation Limited's experience. IAD89-93 was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993.	None.
Future supportable bonuses and interest credits to participating policies	Future bonus rates and interest credits assumed are those supported by the policy liabilities and the assumed future experience, including allowance for the shareholder's right to participate in distributions. Using these rates the net present value of expected future cash flows equals the value of assets supporting the business. For participating whole of life and endowment business, the 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 shareholder 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.

Other requirements

The Life Act requires companies to meet prudential standards of solvency. The solvency requirements are determined in accordance with the Actuarial Standard 2.04 'Solvency Standard' issued by the LIASB under *the Life Act*. For the purposes of note 37(f), minimum termination values have been determined in accordance with Actuarial Standard 4.02 'Minimum Surrender Value and Paid-Up Values' and 2.04 'Solvency Standard'.

27. Outside beneficial interests

	Consolidated 2006 $m	Consolidated 2005 $m
Outside beneficial interests	854	-
	854	-

The change in accounting policy relating to the adoption of AASB 132 (refer note 2) has resulted in the recognition of outside beneficial interests (previously classified as outside equity interests). 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.

28. Securitisation liabilities

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Secured				
Class A1 Note invested AUD	2,980	1,500	-	-
Class A1 Note invested EUR	223	328	-	-
Class A1 Note invested USD	158	284	-	-
Class A2 Note invested AUD	96	218	-	-
Class A2 Note invested EUR	1,557	865	-	-
Class A2 Note invested USD	153	226	-	-
Class A3 Note invested AUD	260	284	-	-
Class B Notes AUD	273	201	-	-
Total securitisation liabilities	5,700	3,906	-	-

29. Bonds, notes and long term borrowings

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Unsecured				
Long term securities issued	2,148	2,366	2,092	2,306
Offshore borrowings	3,412	2,102	3,412	2,102
Total bonds, notes and long term borrowings	5,560	4,468	5,504	4,408

30. Subordinated notes

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Fixed rate notes due September 2011	200	200	200	200
Floating rate notes due September 2011	75	75	75	75
Fixed rate notes due June 2013 (USD)	306	325	306	325
Fixed rate notes due September 2014	130	134	-	-
Floating rate notes due September 2014	65	65	-	-
Floating rate notes due September 2015	220	-	220	-
Fixed rate notes due June 2016	200	-	200	-
Floating rate notes due September 2016	100	-	100	-
Perpetual floating rate notes	170	169	170	170
Total subordinated notes	1,466	968	1,271	770

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.

31. Preference shares

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
2,500,000 preference shares each fully paid [2005: 2,500,000. In the comparative period, the preference shares were recognised as equity – refer note 32(a)]	250	-	250	-
Total preference shares	250	-	250	-

The Company's preference shares are perpetual, paying fixed non-cumulative dividends with certain terms periodically reset. The first reset date is 14 September 2006. 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.

32. 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	Hedging reserve $m	Assets available for sale reserve $m	Other reserves $m	Retained profits $m	Total $m	Outside equity 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)	-	-	-	-	(5)	(255)	(747)	(1,002)
Balance at the beginning of the financial year – restated	2,796	5	-	(27)	(17)	-	12	1,432	4,201	-	4,201
Total recognised income and expense	-	-	-	-	31	1	1	916	949	-	949
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)	14	1	13	1,432	4,433	-	4,433

Notes to the Financial Statements

for the year ended 30 June 2006

32. 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	Pref-erence shares $m	Treasury shares $m	Hedging reserve $m	Assets available for sale reserve $m	Other reserves $m	Retained profits $m	Total $m	Outside equity interests $m	Total equity $m
2005											
Consolidated											
Balance at the beginning of the financial year	2,654	-	244	-	-	-	24	1,070	3,992	348	4,340
Effect of change in accounting policy – remeasure	-	2	-	(19)	-	-	(3)	(19)	(39)	478	439
Effect of change in accounting policy – reclassify	-	-	-	-	-	-	(8)	8	-	-	-
Balance at the beginning of the financial year – restated	2,654	2	244	(19)	-	-	13	1,059	3,953	826	4,779
Total recognised income and expense	-	-	-	-	-	-	(1)	882	881	109	990
Shares issued	142	-	-	-	-	-	-	-	142	-	142
Share based remuneration	-	3	-	-	-	-	-	-	3	-	3
Treasury shares purchased	-	-	-	(8)	-	-	-	-	(8)	-	(8)
Dividends to shareholders	-	-	-	-	-	-	-	(457)	(457)	(188)	(645)
Balance at the end of the financial year	2,796	5	244	(27)	-	-	12	1,484	4,514	747	5,261

Notes to the Financial Statements

for the year ended 30 June 2006

32. 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	Hedging reserve $m	Other reserves $m	Retained profits $m	Total $m
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)	-	-	-	(250)
Balance at the beginning of the financial year – restated	2,796	5	-	(12)	13	883	3,685
Total recognised income and expense	-	-	-	30	-	817	847
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	-	18	13	780	3,826
2005							
Company							
Balance at the beginning of the financial year	2,654	-	244	-	21	381	3,300
Effect of change in accounting policy – remeasure	-	2	-	-	-	20	22
Effect of change in accounting policy – reclassify	-	-	-	-	(8)	8	-
Balance at the beginning of the financial year – restated	2,654	2	244	-	13	409	3,322
Total recognised income and expense	-	-	-	-	-	912	912
Shares issued	142	-	-	-	-	-	142
Share based remuneration	-	3	-	-	-	-	3
Dividends to shareholders	-	-	-	-	-	(459)	(459)
Balance at the end of the financial year	2,796	5	244	-	13	862	3,920

	Company					
	Ordinary shares		Partly paid shares		Non-participating shares	
	2006 '000	2005 '000	2006 '000	2005 '000	2006 '000	2005 '000
(b) Share capital						
Share capital						
Balance at the beginning of the financial year	545,846	536,620	11	18	2	2
Issued due to exercise of options under the Executive Option Plan	815	2,934	-	-	-	-
Issued under the Dividend Reinvestment Plan	6,613	6,285	-	-	-	-
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	7	(11)	(7)	-	-
Balance at the end of the financial year	556,707	545,846	-	11	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.

Notes to the Financial Statements

for the year ended 30 June 2006

32. Capital and reserves (continued)

(b) Share capital (continued)

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, 815,266 options (2005: 2,934,117) 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
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			
2005					
July 2004	10,000	8.11	September 2004	58,500	8.89
August 2004	105,400	8.11	September 2004	2,000,000	12.61
August 2004	15,100	8.46	November 2004	91,000	12.30
August 2004	6,700	8.49	January 2005	13,200	8.89
August 2004	124,000	8.89	February 2005	13,300	8.89
August 2004	51,250	9.07	February 2005	61,000	11.62
August 2004	74,000	11.62	March 2005	25,000	11.62
September 2004	73,400	8.11	March 2005	8,300	8.89
September 2004	16,600	8.42	April 2005	66,700	8.89
September 2004	93,000	8.46	April 2005	16,667	11.62
September 2004	7,600	8.54	May 2005	3,400	8.89

Dividend Reinvestment Plan

On 3 October 2005, 3,503,891 ordinary shares were issued at $19.91 under the Dividend Reinvestment Plan in respect of the 30 June 2005 final dividend.

On 3 April 2006, 3,109,354 ordinary shares were issued at $19.65 under the Dividend Reinvestment Plan in respect of the 30 June 2006 interim dividend.

Partly paid shares

During the year, 11,250 partly paid shares (2005: 6,400 shares) were converted to fully paid shares at an average price of $1.03 (2005: $1.16). The calls on, and conversion of, partly paid shares were in accordance with the employee share acquisition scheme under which they were issued.

Preference shares

The change in accounting policy relating to the adoption of AASB 132 (refer note 2) has resulted in the Company's preference shares being recognised as debt (previously recognised as equity). Refer note 31.

32. Capital and reserves (continued)

(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 statements. 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) Foreign exchange reserve

The foreign exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements 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 Company's net investment in a foreign subsidiary.

(e) 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.

(f) Assets available for sale reserve

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

(g) 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.

33. Dividends

	Company 2006 Cents per share	Company 2006 $m	Company 2005 Cents per share	Company 2005 $m
Ordinary shares				
Final 2005 dividend (franked) paid 3 October 2005 (2005: 1 October 2004) [1]	45	248	40	215
Special 2005 dividend (franked) paid 3 October 2005 (2005: n/a) [1]	75	412	n/a	-
Interim 2006 dividend (franked) paid 3 April 2006 (2005: 1 April 2005) [2]	47	260	42	228
Preference shares recognised as equity				
Half-yearly dividend (franked) paid n/a (2005: 14 September 2004) [1]	n/a	-	315	8
Half-yearly dividend (franked) paid n/a (2005: 15 March 2005) [1]	n/a	-	310	8
		920		459
Preference shares recognised as liability				
Half-yearly dividend (franked) paid 14 September 2005 (2005: n/a), recognised in interest expense [1]	315	8	n/a	-
Half-yearly dividend (franked) paid 14 March 2006 (2005: n/a), recognised in interest expense [2]	310	8	n/a	-
		16		-
Dividends not recognised in the Balance Sheet				
In addition to the above dividends, since year end the directors have proposed the following:				
Final 2006 dividend (franked) expected to be paid on 2 October 2006 (2005: 3 October 2005) out of retained profits at 30 June 2006, but not recognised as a liability in the Balance Sheet [2]	50	278	45	246
Special 2005 dividend (franked) paid on 3 October 2005 out of retained profits at that date, but not recognised as a liability in the Balance Sheet [1]	n/a	-	75	409
Total dividends not recognised in the Balance Sheet		278		655

Notes

[1] Paid out of previous GAAP profits.

[2] Paid out of AIFRS profits.

Franked dividends proposed, declared or paid during the year were fully franked at the tax rate of 30% (2005: 30%).

	Company 2006 $m	Company 2005 $m
Dividend franking account		
The franked portions of the dividends recommended after 30 June 2006 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 2007.		
Franking credits available for subsequent financial years based on a tax rate of 30% (2005: 30%)	484	489

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 year end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax-consolidated group at 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 $116 million (2005: $283 million). In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of $408 million (2005: $336 million) franking credits.

34. 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, and delegation of authority to assume and approve risk, monitoring and reporting requirements.

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 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. These departments include Group Risk Policy, Credit Approval, Credit Recovery, Credit Risk Systems, Credit Review, Compliance & Assurance, Investment Compliance, Group Operational Risk and Group Market Risk. These units regularly report to the Board Risk Committee.

The Compliance & Assurance function independently examines and evaluates the adequacy and effectiveness of the Group's control environment across risk management systems, operations and governance processes. Compliance & Assurance reports at each meeting to the Audit Committee on findings of its work and the status of management's action plans to address issues identified. Any specific findings relating to the risk management framework are reported directly to the Board Risk Committee.

For further details of the specific risk management frameworks applying to Banking activities, General Insurance activities and Wealth Management activities refer to notes 35(g), 36(f) and 37(g) respectively.

35. Specific disclosures – Banking

	Consolidated Banking 2006 $m	2005 $m
(a) Contribution to profit from Banking activities		
Net interest income		
Interest revenue	2,878	2,532
Interest expense	(2,030)	(1,746)
	848	786
Net banking fee and commission income		
Fee and commission revenue	202	211
Fee and commission expense	(73)	(82)
	129	129
Other operating revenue		
Net profits on trading and investment securities	4	4
Net profits on derivative and other financial instruments	8	10
Other income	8	5
	20	19
Non-interest income	149	148
Total income from Banking activities	997	934
Operating expenses		
Staff	(284)	(268)
Occupancy	(26)	(24)
Computer and depreciation	(45)	(38)
Communication	(29)	(31)
Advertising and promotion	(25)	(24)
Other	(51)	(67)
	(460)	(452)
Contribution to profit from Banking activities before impairment losses on loans and advances and tax	537	482
Impairment losses on loans and advances	(31)	(28)
Contribution to profit before tax from Banking activities	506	454

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.

35. Specific disclosures – Banking (continued)

(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 2006 $m	Interest 2006 $m	Average rate 2006 %	Average balance 2005 [1] $m	Interest 2005 [1] $m	Average rate 2005 [1] %
Assets						
Interest earning assets						
Trading securities	3,636	205	5.64	3,237	179	5.53
Gross loans, advances and other receivables	36,306	2,641	7.27	32,534	2,334	7.17
Other interest earning assets	629	32	5.09	407	19	4.67
Total interest earning assets	40,571	2,878	7.09	36,178	2,532	7.00
Non-interest earning assets						
Other financial assets	2,401			2,588		
Total non-interest earning assets	2,401			2,588		
Total assets	42,972			38,766		
Liabilities						
Interest bearing liabilities						
Deposits and short term borrowings	27,900	1,407	5.04	26,319	1,285	4.88
Securitisation liabilities	4,261	252	5.91	3,179	182	5.73
Bonds, notes and long term borrowings	5,582	312	5.59	4,356	239	5.49
Subordinated notes [2]	734	49	6.68	594	40	6.73
Preference shares [2]	151	10	6.25	-	-	-
Total interest bearing liabilities	38,628	2,030	5.26	34,448	1,746	5.07
Non-interest bearing liabilities						
Other liabilities	711			704		
Total non-interest bearing liabilities	711			704		
Total liabilities	39,339			35,152		
Net assets	3,633			3,614		
Analysis of interest margin and spread						
Interest earning assets	40,571	2,878	7.09	36,178	2,532	7.00
Interest bearing liabilities	38,628	2,030	5.26	34,448	1,746	5.07
Net interest spread			1.83			1.93
Net interest margin	40,571	848	2.09	36,178	786	2.17

Notes

[1] The 2005 comparatives are based on statutory AIFRS balances and due to the transitional adoption of AIFRS do not include AIFRS adjustments arising from the adoption of AASB 132 and 139.

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

35. Specific disclosures – Banking (continued)

(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 2006 vs 2005 Changes due to:		
	Volume $m	Rate $m	Total $m
Interest earning assets			
Trading securities	22	4	26
Gross loans, advances and other receivables	272	35	307
Other interest earning financial assets	11	2	13
Change in interest income	305	41	346
Interest bearing liabilities			
Deposits and short term borrowings	78	44	122
Securitisation liabilities	63	7	70
Bonds, notes and long term borrowings	68	5	73
Subordinated notes	9	-	9
Preference shares	10	-	10
Change in interest expense	228	56	284
Change in net interest income	77	(15)	62

Notes

In the 2006 vs 2005 comparison, $9 million of the rate variance in gross loans, advances and other receivables and the $10 million volume in preference shares is due to the transitional adoption of AASB 132 and 139.

35. Specific disclosures – Banking (continued)

	Consolidated Banking 2006 $m	Consolidated Banking 2005 $m	Company 2006 $m	Company 2005 $m
(c) Impaired assets				
Non-accrual loans				
Gross balances				
with specific provisions set aside	70	35	66	34
without specific provisions set aside	29	34	20	27
Gross impaired assets	99	69	86	61
Interest reserved [1]	-	(6)	-	(6)
Net balances	99	63	86	55
Specific provision for impairment (note 16)	(21)	(17)	(19)	(16)
Net impaired assets	78	46	67	39
Size of gross impaired assets				
Less than one million	24	27	13	19
Greater than one million but less than ten million	47	32	46	31
Greater than ten million	28	10	27	11
	99	69	86	61
Past due loans not shown as impaired assets	133	105	131	103
Interest income forgone on impaired assets [1]				
Net interest charged but not recognised as revenue in the Income Statements during the financial year	-	7	-	7
Interest income on impaired assets recognised in the Income Statements [1]				
Net interest charged and recognised as revenue in the Income Statements during the financial year	5	4	5	4
Analysis of movements in gross impaired assets				
Balance at the beginning of the financial year	69	62	61	60
Recognition of new impaired assets and increases in previously recognised impaired assets	80	47	71	39
Impaired assets written-off during the financial year	(17)	(9)	(14)	(7)
Impaired assets which have been restated as performing assets or repaid	(33)	(31)	(32)	(31)
Balance at the end of the financial year	99	69	86	61

Notes

[1] Interest reserved is no longer recognised under AIFRS.

35. Specific disclosures – Banking (continued)

(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 2006 $m	Consolidated Banking 2005 $m
Australian funding sources		
Retail deposits	16,932	15,252
Wholesale funding	9,765	8,336
AUD domestic program	1,807	1,355
Securitisation	3,646	2,206
	32,150	27,149
Overseas wholesale funding sources		
USD $15 billion program		
European commercial paper and medium term note market	6,187	7,130
Subordinated debt program (USD)	306	325
Securitisation	2,064	1,700
	8,557	9,155
	40,707	36,304
Comprised of the following:		
Deposits from other banks	202	62
Other money market deposits	2,797	2,644
Amounts owed to other depositors	14,137	12,676
Certificates of deposits	9,311	8,205
Promissory notes and other liabilities evidenced by paper	2,273	3,645
Other borrowed funds	11,987	9,072
	40,707	36,304

(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 2006 Number	Consolidated Banking 2005 Number
25 percent and greater	-	1
20 percent to less than 25 percent	1	1
15 percent to less than 20 percent	1	-
10 percent to less than 15 percent	1	-
5 percent to less than 10 percent	7	7

These exposures are in relation to holding of trading securities with major Australian and overseas financial institutions.

35. Specific disclosures – Banking (continued)

(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.

The APRA guidelines are generally based on previous GAAP with the exceptions of tax-consolidations and share based payment transactions. APRA have announced their intention to move to AIFRS based capital reporting for banking from 1 July 2006. APRA's proposed treatment of some balance sheet items, most notably the collective provision and software assets, will result in a reduced capital base. It is anticipated that following these regulatory changes the Bank's capital ratio will remain within the target range.

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 2006 $m	Consolidated Banking 2005 $m
Tier 1		
Ordinary share capital	3,007	2,796
Preference shares	244	244
Preconversion reserve	-	13
Retained profits	861	1,018
Less: Goodwill	(1,305)	(1,234)
Less: Other intangible assets per APRA definitions	(74)	(67)
Less: Net deferred tax asset	(18)	-
Total Tier 1 capital	2,715	2,770
Tier 2		
Asset revaluation reserve (pre AIFRS)	8	8
APRA general reserve for credit losses	118	118
Perpetual subordinated notes	170	170
Subordinated notes	1,131	602
Total Tier 2 capital	1,427	898
Deductions from capital		
Less: Investments in non-Banking controlled entities (net of goodwill component deducted from Tier 1)	(852)	(851)
Less: Guarantees and facilities to non-Banking subsidiaries	(5)	(5)
Total deductions	(857)	(856)
Total capital base	3,285	2,812

Notes to the Financial Statements

for the year ended 30 June 2006

35. Specific disclosures – Banking (continued)

(f) Banking capital adequacy (continued)

Risk weighted assets

	Consolidated Banking				
	Carrying value		Risk weights	Risk weighted balance	
	2006 $m	2005 $m	%	2006 $m	2005 $m
Assets					
Cash, claims on Reserve Bank of Australia, short term claims on Australian Commonwealth Government and other liquid assets	504	637	0	-	-
Claims on banks and local governments	151	212	20	30	42
Loans secured against residential housing	16,600	16,208	50	8,300	8,104
Other assets	16,899	14,954	100	16,899	14,954
Loans with loan to valuation ratio in excess of 80%	14	16	200	28	32
Total banking assets	34,168	32,027		25,257	23,132

	Consolidated Banking				
	Face value 2006 $m	Credit equivalent 2006 $m	Risk weights %	Risk weighted balance 2006 $m	Risk weighted balance 2005 $m
Off balance sheet positions					
Guarantees entered into in the normal course of business	363	200	20-100	156	119
Commitments to provide loans and advances	5,868	1,241	0-100	897	814
Capital commitments	8	8	100	8	4
Foreign exchange contracts	11,080	253	20-50	52	55
Interest rate contracts	26,511	238	20-50	78	73
Total off balance sheet positions	43,830	1,940		1,191	1,065
Assessed risk					
Total risk weighted assets				25,257	23,132
Total off balance sheet positions				1,191	1,065
Market risk capital charge				227	242
Total assessed risk				26,675	24,439
				%	%
Risk weighted capital ratios					
Tier 1				10.18	11.34
Tier 2				5.34	3.67
Deductions				(3.21)	(3.50)
Total risk weighted capital ratios				12.31	11.51

35. Specific disclosures – Banking (continued)

(g) Banking risk management

Refer to note 34 for details of the Group's general risk management framework.

Credit risk

Credit risk is the likelihood of future financial loss resulting from the failure of clients or counterparties to meet contractual payment obligations to the Group's Banking entity 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 a risk graded portfolio.

The statistically managed portfolio covers consumer business (ie 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 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 Asset Management/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.

Refer to note 40(b) for discussion of hedging of market risk.

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 (balance sheet) 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.

Non-traded interest rate risk (balance sheet risk)

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 Services 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 twelve 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 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.

35. Specific disclosures – Banking (continued)

(g) Banking risk management (continued)

Market risk (continued)

Non-traded interest rate risk (balance sheet 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 2006 %	Consolidated Banking 2005 %
Average monthly exposure	1.67	0.81
High month exposure	2.76	1.44
Low month exposure	0.02	0.14

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 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 2006 $m	Consolidated Banking 2005 $m
Average monthly exposure	23	68
High month exposure	35	85
Low month exposure	13	42

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 2006 $m	Consolidated Banking 2005 $m
Average monthly exposure	10	35
High month exposure	15	50
Low month exposure	6	14

Further details of non-traded interest rate risk in relation to Banking activities are set out in note 35(j).

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 section 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 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 2006 $m	Consolidated Banking 2005 $m
Average VaR	0.04	0.09
Maximum VaR	0.09	0.15
Minimum VaR	0.02	0.02

35. Specific disclosures – Banking (continued)

(g) Banking risk management (continued)

Foreign exchange risk

Foreign exchange risk in the Group's banking entity is the risk of a loss of current and future earnings from adverse movements in exchange rates. The two major 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 on-balance sheet and derivative foreign exchange products. 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.

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	
	2006 $m	2005 $m
Average VaR	0.08	0.07
Maximum VaR	0.25	0.27
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 extreme market movements.

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

	Consolidated Banking	
	2006 $m	2005 $m
Average VaR	0.08	0.13
Maximum VaR	0.30	0.35
Minimum VaR	0.02	0.04

Liquidity risk

Liquidity risk is the risk of the Bank 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 minimum high quality liquid asset ratios, minimum liquid asset ratios, cumulative cashflow mismatch limits, liquidity concentration limits and other supplementary management trigger limits.

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

Notes to the Financial Statements

for the year ended 30 June 2006

35. Specific disclosures – Banking (continued)

(g) Banking risk management (continued)

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes reputational and legal risks. The operational risk management framework provides tools, processes and systems for recognising, evaluating and monitoring operational risks and mitigation. Key operational risks and their mitigators are documented in Risk Registers that are maintained at a business unit level and consolidated on a group basis. Risk Registers are reviewed annually. Each Register is signed off by the managers of the business unit and the relevant executive. Consolidated Risk Registers are endorsed by the Executive Risk Committee and submitted to provide assurance to the Board Risk Committee that management has identified the key operational risks including business continuity facing the Group. Operational risk events are tracked and monitored via a central loss database and reported regularly to the Executive Risk Committee and the Board Risk Committee.

Risks which cross all business units such as business continuity and regulatory compliance are coordinated centrally by Group Operational Risk department or Group Policy and Compliance. These risks are monitored by the Executive Risk Committee and oversight provided by the Board Risk Committee. The Assurance function conducts reviews of the adequacy and effectiveness of internal controls, which includes compliance with policy and regulatory requirements.

(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 42 and for derivative financial instruments in Note 39. Risk concentrations by asset class are as follows:

	Consolidated Banking					
	Trading securities $m	Investment securities $m	Loans advances and other receivables $m	Credit commitments $m	Derivative instruments $m	Total risk $m
2006						
Agribusiness	-	-	2,849	30	-	2,879
Construction and development	-	-	3,411	286	-	3,697
Financial services	3,773	3	674	42	494	4,986
Hospitality	-	-	982	-	-	982
Manufacturing	-	-	538	-	-	538
Professional services	-	-	642	-	-	642
Property investment	-	-	4,068	-	-	4,068
Real estate – Mortgage	-	-	22,519	753	-	23,272
Personal	-	-	826	-	-	826
Government and public authorities	-	-	4	-	-	4
Other commercial and industrial	-	-	1,978	338	-	2,316
	3,773	3	38,491	1,449	494	44,210
Receivables due from other banks						26
Total gross credit risk						44,236
2005						
Agribusiness	-	-	2,387	26	-	2,413
Construction and development	-	-	3,292	285	-	3,577
Financial services	3,396	2	449	-	446	4,293
Hospitality	-	-	883	-	-	883
Manufacturing	-	-	498	-	-	498
Professional services	-	-	592	-	-	592
Property investment	-	-	3,791	-	-	3,791
Real estate – Mortgage	-	-	20,450	815	-	21,265
Personal	-	-	645	-	-	645
Government and public authorities	-	-	2	-	-	2
Other commercial and industrial	-	-	1,801	222	-	2,023
	3,396	2	34,790	1,348	446	39,982
Receivables due from other banks						67
Total gross credit risk						40,049

35. Specific disclosures – Banking (continued)

(i) Credit risk concentrations – impaired assets

	Consolidated Banking		
	Total risk $m	Impaired assets $m	Specific provision $m
2006			
Agribusiness	2,879	11	3
Construction and development	3,697	41	12
Financial services	4,986	-	-
Hospitality	982	10	2
Manufacturing	538	5	1
Professional services	642	12	1
Property investment	4,068	4	-
Real estate – Mortgage	23,272	3	-
Personal	826	5	-
Government and public authorities	4	-	-
Other commercial and industrial	2,316	8	2
	44,210	99	21
Receivables due from other banks	26		
Total gross credit risk	44,236		
2005			
Agribusiness	2,413	24	9
Construction and development	3,577	15	-
Financial services	4,293	-	-
Hospitality	883	2	1
Manufacturing	498	-	-
Professional services	592	2	-
Property investment	3,791	6	-
Real estate – Mortgage	21,265	-	-
Personal	645	3	-
Government and public authorities	2	-	-
Other commercial and industrial	2,023	17	7
	39,982	69	17
Receivables due from other banks	67		
Total gross credit risk	40,049		

Notes to the Financial Statements

for the year ended 30 June 2006

35. Specific disclosures – Banking (continued)

(j) Interest rate risk

Accounting Standard 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 35(g).

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

	Consolidated Banking							
	Fixed or floating	Total $m	0 to 1 month $m	1 to 6 months $m	7 to 12 months $m	1 to 5 years $m	Over 5 years $m	Effective interest rate %
2006								
Interest rate sensitive financial assets								
Cash and cash equivalents	Floating	221	221	-	-	-	-	5.75
Trading securities	Fixed	3,773	-	3,773	-	-	-	5.84
Loans, advances and other receivables	Floating	28,012	17,227	10,779	2	2	2	7.63
Loans, advances and other receivables	Fixed	10,355	-	2,212	1,457	6,609	77	6.99
Total interest rate sensitive financial assets		42,361	17,448	16,764	1,459	6,611	79	7.31
Interest rate sensitive financial liabilities								
Deposits and short term borrowings	Floating	11,052	9,891	1,161	-	-	-	4.43
Deposits and short term borrowings	Fixed	16,920	-	15,212	1,708	-	-	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	501	-	-	-	488	13	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		40,707	9,891	28,607	1,708	488	13	5.56
Net assets		1,654	7,557	(11,843)	(249)	6,123	66	1.74
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.

35. Specific disclosures – Banking (continued)

(j) Interest rate risk (continued)

	Fixed or floating	Total $m	0 to 1 month $m	1 to 6 months $m	7 to 12 months $m	1 to 5 years $m	Over 5 years $m	Effective interest rate %
		Consolidated Banking						
2005								
Interest rate sensitive financial assets								
Cash and cash equivalents	Floating	495	495	-	-	-	-	5.50
Trading securities	Fixed	3,396	-	3,396	-	-	-	6.05
Loans, advances and other receivables	Fixed & floating	34,658	16,234	11,934	1,182	5,271	37	7.42
Total interest rate sensitive financial assets		38,549	16,729	15,330	1,182	5,271	37	7.27
Interest rate sensitive financial liabilities								
Deposits and short term borrowings	Fixed & floating	27,220	8,916	17,063	1,018	211	12	5.22
Securitisation liabilities	Floating	3,906	-	3,906	-	-	-	5.92
Bonds, notes and long term borrowings	Fixed & floating	4,408	-	3,680	22	706	-	5.81
Subordinated notes	Fixed & floating	770	-	572	-	198	-	6.74
Total interest rate sensitive financial liabilities		36,304	8,916	25,221	1,040	1,115	12	5.40
Net assets		2,245	7,813	(9,891)	142	4,156	25	1.88
Derivative financial instruments [(1)]			2,370	(859)	93	(1,580)	(24)	
Net mismatch			10,183	(10,750)	235	2,576	1	
Cumulative mismatch			10,183	(567)	(332)	2,244	2,245	

Notes

(1) Notional principal amounts.

35. Specific disclosures – Banking (continued)

(j) Interest rate risk (continued)

	Company							
	Fixed or floating	Total $m	0 to 1 month $m	1 to 6 months $m	7 to 12 months $m	1 to 5 years $m	Over 5 years $m	Effective interest rate %
2006								
Interest rate sensitive financial assets								
Cash and cash equivalents	Floating	217	217	-	-	-	-	5.75
Trading securities	Fixed	3,773	-	3,773	-	-	-	5.84
Loans, advances and other receivables	Floating	26,590	16,351	10,234	1	2	2	7.63
Loans, advances and other receivables	Fixed	9,831	-	2,100	1,383	6,274	74	6.99
Total interest rate sensitive financial assets		40,411	16,568	16,107	1,384	6,276	76	7.30
Interest rate sensitive financial liabilities								
Deposits and short term borrowings	Floating	11,082	9,919	1,163	-	-	-	4.43
Deposits and short term borrowings	Fixed	16,950	-	15,239	1,711	-	-	5.86
Bonds, notes and long term borrowings	Floating	5,003	-	5,003	-	-	-	6.13
Bonds, notes and long term borrowings	Fixed	501	-	-	-	488	13	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		35,057	9,919	22,926	1,711	488	13	5.48
Net assets		5,354	6,649	(6,819)	(327)	5,788	63	1.82
Derivative financial instruments [(1)]			-	3,628	612	(4,217)	(23)	
Net mismatch			6,649	(3,191)	285	1,571	40	
Cumulative mismatch			6,649	3,458	3,743	5,314	5,354	

Notes

(1) Notional principal amounts.

35. Specific disclosures – Banking (continued)

(j) Interest rate risk (continued)

	Company							
	Fixed or floating	**Total $m**	**0 to 1 month $m**	**1 to 6 months $m**	**7 to 12 months $m**	**1 to 5 years $m**	**Over 5 years $m**	**Effective interest rate %**
2005								
Interst rate sensitive financial assets								
Cash and cash equivalents	Floating	495	495	-	-	-	-	5.50
Trading securities	Fixed	3,396	-	3,396	-	-	-	6.05
Loans, advances and other receivables	Fixed & floating	33,171	15,537	11,422	1,132	5,045	35	7.42
Total interest rate sensitive financial assets		37,062	16,032	14,818	1,132	5,045	35	7.27
Interest rate sensitive financial liabilities								
Deposits and short term borrowings	Fixed & floating	27,250	8,926	17,082	1,019	211	12	5.22
Bonds, notes and long term borrowings	Fixed & floating	4,408	-	3,680	22	706	-	5.81
Subordinated notes	Fixed & floating	770	-	572	-	198	-	6.74
Total interest rate sensitive financial liabilities		32,428	8,926	21,334	1,041	1,115	12	5.34
Net assets		4,634	7,106	(6,516)	91	3,930	23	1.93
Derivative financial instruments [1]			2,370	(859)	93	(1,580)	(24)	
Net mismatch			9,476	(7,375)	184	2,350	(1)	
Cumulative mismatch			9,476	2,101	2,285	4,635	4,634	

Notes

[1] Notional principal amounts.

Notes to the Financial Statements

for the year ended 30 June 2006

35. Specific disclosures – Banking (continued)

(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
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
2005								
Financial assets								
Receivables due from other banks	67	-	-	-	-	-	-	67
Loans, advances and other receivables (net of specific provisions)	467	4,044	1,076	2,734	7,017	19,422	-	34,760
	534	4,044	1,076	2,734	7,017	19,422	-	34,827
Financial liabilities								
Deposits and short term borrowings	9,269	-	12,952	4,787	212	-	-	27,220
Payables due to other banks	66	-	-	-	-	-	-	66
Securitisation liabilities	182	-	-	2	12	3,710	-	3,906
Bonds, notes and long term borrowings	-	-	-	-	4,394	14	-	4,408
Subordinated notes	-	-	-	-	469	301	-	770
	9,517	-	12,952	4,789	5,087	4,025	-	36,370

35. Specific disclosures – Banking (continued)

(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 statements. 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 use either a statistical time-series model to estimate impairment losses based on historical write-off experience, or 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.

36. Specific disclosures – General Insurance

(a) Contribution to profit from General Insurance activities

	Consolidated General Insurance 2006 $m	Consolidated General Insurance 2005 $m
Net earned premium		
Direct premium revenue	2,639	2,583
Inwards reinsurance premium revenue	5	4
Premium revenue	2,644	2,587
Outwards reinsurance premium expense	(117)	(116)
	2,527	2,471
Net incurred claims		
Claims expense	(1,948)	(2,085)
Reinsurance and other recoveries revenue	315	316
	(1,633)	(1,769)
Underwriting expenses		
Acquisition costs	(329)	(291)
Movement in liability adequacy test deficiency	(9)	-
Other underwriting expenses	(331)	(284)
	(669)	(575)
Reinsurance commission revenue	5	4
Underwriting result	230	131
Investment revenue – insurance funds		
Investment income on insurance funds	259	332
Investment expense on insurance funds	(18)	(19)
	241	313
Insurance trading result	471	444
Investment income on shareholder funds	232	202
Fee for service and other income	124	126
Share of net profit of joint venture entities	25	28
Non-banking interest expense	(16)	(14)
Other expenses	(145)	(126)
	220	216
Contribution to profit from General Insurance activities before tax	691	660

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.

36. Specific disclosures – General Insurance (continued)

(b) Net incurred claims

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

	Consolidated General Insurance					
	2006			2005		
	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	2,605	(538)	2,067	2,416	(447)	1,969
Discount and discount movement	(243)	99	(144)	(172)	280	108
	2,362	(439)	1,923	2,244	(167)	2,077
Reinsurance and other recoveries						
Undiscounted	(371)	57	(314)	(303)	(20)	(323)
Discount and discount movement	32	(20)	12	17	(9)	8
	(339)	37	(302)	(286)	(29)	(315)
Total direct business	2,023	(402)	1,621	1,958	(196)	1,762
Net inwards reinsurance			12			7
Total net claims incurred			1,633			1,769

The major components of the prior year movements are:

- a change in the discount rate movement; and
- a favourable reassessment of other valuation assumptions for the Net Central Estimate and Risk Margin.

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

36. Specific disclosures – General Insurance (continued)

(d) Liability adequacy test deficiency

	Consolidated General Insurance 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 cashflows 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 has identified a surplus for the Personal Short tail class of business for the General Insurance business as at 30 June 2006.

36. Specific disclosures – General Insurance (continued)

(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.

	Consolidated General Insurance	
	2006 $m	2005 $m
Tier 1 Capital		
Share capital	1,468	1,395
Retained profits at end of reporting period	805	680
Technical provision in excess of liability valuation	499	480
Less: Tax effect of excess technical provisions	(150)	(144)
	2,622	2,411
Less:		
Goodwill	(932)	(807)
Net deferred tax asset	-	(3)
Total deductions from Tier 1 capital	(932)	(810)
Total Tier 1 Capital	1,690	1,601
Tier 2 Capital		
Upper Tier 2 Capital – subordinated debt	196	199
Total Tier 2 Capital	196	199
Total capital base	1,886	1,800
Outstanding claims risk charge	471	470
Premium liabilities risk charge	207	192
Investment risk charge	199	177
Balance sheet risk charge	76	68
Maximum event retention risk charge	100	50
Minimum capital requirement	1,053	957
Capital adequacy multiple	1.79	1.88

36. Specific disclosures – General Insurance

(continued)

(f) General Insurance risk management

Refer to note 34 for details of the Group's general risk management framework.

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.

A Reinsurance Management Strategy has been developed that outlines 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 policy 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. Regular reviews are undertaken to gauge the Group's geographic accumulation exposure. 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 portfolio is 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 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;
- Quota share coverage for some engineering business, a section of the public liability book and hail risk for motor dealers; and
- Surplus coverage for construction business.

Credit risk

Credit risk arises as a result of placement of reinsurance programs with counterparties and investment in financial instruments. The Board Risk Committee oversees 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 percent 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 Statement. 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.

36. Specific disclosures – General Insurance (continued)

(f) General Insurance risk management (continued)

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 statements.

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 25. 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 36(g).

Foreign exchange risk

Foreign exchange risk in the Group's General Insurance entity is the risk of a loss of current and future earnings from adverse movements in exchange rates. The Group's General Insurance entity has 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 39.

Other market risks

The Group has two 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 mandate for this portfolio has a more diverse investment strategy, including interests in equities, property and cash. The investment mandate 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 mandate was 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 mandate is 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 39.

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.

The Board has adopted a policy to maintain capital of at least 160% of the Minimum Capital Requirement prescribed in the capital adequacy standard issued by APRA, for the Group's General Insurance business. Minimum APRA requirements are 1.2.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes reputational and legal risks. The operational risk management framework provides tools, processes and systems for recognising, evaluating and monitoring operational risks and mitigation. Key operational risks and their mitigators are documented in Risk Registers that are maintained at a business unit level and consolidated on a group basis. Risk Registers are reviewed regularly. Each Register is signed off by the managers of the business unit and the relevant executive. Consolidated Risk Registers are endorsed by the Executive Risk Committee and submitted to provide assurance to the Board Risk Committee that management has identified the key operational risks including business continuity facing the Group. Operational risk events are tracked and monitored via a central loss database and reported regularly to the Executive Risk Committee and the Board Risk Committee.

Risks which cross all business units such as business continuity and regulatory compliance are coordinated centrally by the Group Operational Risk or Group Policy and Compliance departments respectively. These risks are owned and managed by the Executive Risk Committee with monitoring by the Board Risk Committee. The Assurance department also conducts regular audits to assess compliance with policy and examines the general standard of control.

Notes to the Financial Statements

for the year ended 30 June 2006

36. Specific disclosures – General Insurance (continued)

(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:

	Consolidated General Insurance Fixed interest maturing in:						
	Total $m	Floating interest rate $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Effective interest rate %
2006							
Financial assets							
Cash	25	25	-	-	-	-	4.96
Investments	4,632	157	745	523	2,590	617	6.12
	4,657	182	745	523	2,590	617	
Financial liabilities							
Interest bearing liabilities	58	58	-	-	-	-	7.24
Subordinated notes	195	65	-	-	-	130	6.70
	253	123	-	-	-	130	
Net financial assets	4,404	59	745	523	2,590	487	
Interest rate swap and futures	1,212	135	892	-	114	71	5.85
2005							
Financial assets							
Cash	36	36	-	-	-	-	4.67
Investments	4,652	230	890	278	2,743	511	6.00
	4,688	266	890	278	2,743	511	
Financial liabilities							
Interest bearing liabilities	61	61	-	-	-	-	6.42
Subordinated notes	199	65	-	-	-	134	6.71
	260	126	-	-	-	134	
Net financial assets	4,428	140	890	278	2,743	377	
Interest rate futures	326	135	191	-	-	-	5.74

36. Specific disclosures – General Insurance
(continued)

(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 statements. 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 balance sheet date, including the cost of claims incurred but not yet reported to the Group.

The estimated cost of claims includes direct 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 balance sheet 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 balance sheet date are described in note 36 (i). Analysis of outstanding claims liability is provided in note 25.

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.

36. Specific disclosures – General Insurance (continued)

(i) Actuarial assumptions and methods

The Group writes four classes of general insurance business: Personal Short tail, Personal Long tail, Commercial Short tail and Commercial Long tail.

Personal insurance includes the sale of home, pleasurecraft and motor insurance products throughout Australia 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, workers' compensation insurance and some inwards reinsurance.

Products that are short tail in nature are those claims that are typically settled within one year of being reported. Products that are long tail in nature are those claims that are typically settled more than one year from being reported.

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:

Assumptions

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

		2006				2005			
		Personal		Commercial		Personal		Commercial	
		Short tail	Long tail	Short tail	Long tail	Short tail	Long tail	Short tail	Long tail
Weighted average term to settlement	(years)	1.0	4.1	1.2	5.7	0.7	4.0	0.8	5.3
Inflation rate	%	4.0	4.5	4.0	4.5	4.0	4.0	4.0	4.0
Superimposed inflation rate	%	3.8	3.3	N/A	4.6	5.4	3.4	N/A	4.3
Discount rate	%	5.9	5.9	5.8	5.9	5.3	5.2	5.2	5.2
Discounted mean terms	(years)	0.8	3.4	1.0	4.2	0.7	3.6	0.8	4.0
Claims handling expense ratio	%	7.1	4.6	4.4	5.9	6.9	4.6	3.7	5.9
Risk margin	%	20.8	24.3	16.1	39.2	17.8	24.2	17.2	34.1

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 inflation and/or increases in average weekly earnings. Superimposed inflation reflects the past tendency for some costs, such as court awards, to increase at a faster rate. 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 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 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 overall outstanding claim liabilities have a risk margin intended to give approximately a 94% probability of sufficiency.

36. Specific disclosures – General Insurance (continued)

(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 and the analysis below 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. The magnitude of the impact will usually be larger for long tail business than for short tail.
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.

	Movement in variable	Net outstanding claims liabilities increase/(decrease) $m
Variable		
Recognised amounts as per the financial statements		3,761
Weighted average term to settlement	+0.5 years	(106)
	-0.5 years	109
Inflation rate	+1%	119
	-1%	(112)
Discount rate	+1%	(114)
	-1%	123
Claims handling expense ratio	+1%	36
	-1%	(36)
Risk margin	+1%	30
	-1%	(30)

37. Specific disclosures – Wealth Management

	Consolidated Wealth Management 2006 $m	Consolidated Wealth Management 2005 $m
(a) Contribution to profit from Wealth Management activities		
Revenue		
Premium revenue	136	113
Outwards reinsurance premium expense	(28)	(29)
	108	84
Investment revenue	805	586
Other revenue	88	122
	1,001	792
Operating expenses		
Claims expense	(78)	(73)
Reinsurance recoveries revenue	20	22
	(58)	(51)
Other operating expenses	(151)	(149)
Increase in net policy liabilities	-	(378)
Increase in net insurance contract liabilities	(289)	-
Increase in net investment contract liabilities	(208)	-
Decrease/(increase) in unvested policy owner benefits	55	24
Non-banking interest expense	(197)	-
	(848)	(554)
Contribution to profit from Wealth Management activities before tax	153	238
The above segment result includes profits relating to outside equity interests and policy owners' tax. The following reconciliation adjusts for these items:		
Contribution to profit from Wealth Management activities before tax	153	238
Profit attributable to outside equity interests	-	(82)
Income tax attributable to policy owners	(72)	(63)
Contribution to profit from Wealth Management activities before tax excluding policy owners' interests	81	93

The information set out above includes transactions that have been eliminated in the consolidated Income Statement.

	2006 $m	2005 $m
(b) Sources of Life Insurance operating profit		
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	18	21
Emergence of shareholder's planned profits	29	31
Experience profit/(loss)	6	(1)
Reversal of capitalised loss/(losses capitalised)	1	-
	54	51
Cumulative losses carried forward at the end of the financial year	1	2
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	39
Emergence of policy owner planned profits	95	88
Experience profit/(loss)	(4)	(7)
	126	120

37. Specific disclosures – Wealth Management (continued)

(c) Net policy liabilities – Insurance contracts

	Consolidated Wealth Management		
	Current basis [4] 2006 $m	Current basis [4] 2005 $m	Previous basis [5] 2006 $m
Best estimate liability			
Value of future policy benefits [1]	1,956	3,100	1,894
Value of future expenses	217	263	204
Value of unrecouped acquisition expenses	(127)	(148)	(114)
Balance of future premiums	(1,209)	(1,165)	(1,045)
	837	2,050	939
Value of future profits			
Policy owner bonuses [2]	965	747	892
Shareholder profit margins	310	263	282
	1,275	1,010	1,174
Total value of declared bonuses [3]	175	141	175
Total net policy liabilities	2,287	3,201	2,288

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.

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. 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.

(d) 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. Arrangements are in place to ensure that the activities of Suncorp Superannuation Pty Ltd are managed separately.

37. Specific disclosures – Wealth Management (continued)

(e) Disaggregated information by fund

Under *the Life Act*, life insurance business is conducted within separate statutory funds which are distinguished from one another and the shareholder's funds. The financial statements of Suncorp Life & Superannuation Limited are lodged with relevant Australian regulators and show all major components of the financial statements disaggregated between each life insurance statutory fund and the shareholder's funds. Extracts of the disaggregated financial statements of the Group's life insurance business are set out below.

	Consolidated Wealth Management			
	Non-investment linked Statutory Fund No.1 $m	Investment linked Statutory Fund No.2 $m	Total statutory funds $m	Shareholder Fund $m
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

37. Specific disclosures – Wealth Management (continued)

(e) Disaggregated information by fund (continued)

	Consolidated Wealth Management			
	Non-investment linked Statutory Fund No.1 $m	Investment linked Statutory Fund No.2 $m	Total statutory funds $m	Shareholder Fund $m
2005				
Investment assets	2,424	1,260	3,684	20
Policy liabilities ceded to reinsurers	43	-	43	-
Other assets	158	67	225	62
Total assets	2,625	1,327	3,952	82
Gross policy liabilities	2,003	1,241	3,244	-
Policy owner retained profits	324	-	324	-
Other liabilities	170	15	185	19
Total liabilities	2,497	1,256	3,753	19
Net assets	128	71	199	63
Share capital	-	-	-	39
Capital transfers	5	25	30	(30)
Retained profits	123	46	169	54
Total equity	128	71	199	63
Premium revenue	112	2	114	-
Investment revenue	342	169	511	6
Claims expense	(73)	-	(73)	-
Movement in net insurance contract liabilities	(249)	(129)	(378)	-
Net operating expenses	(38)	(23)	(61)	2
Profit before tax	94	19	113	8
Profit after tax	42	9	51	6
Transfer of profits	(36)	-	(36)	36

37. Specific disclosures – Wealth Management (continued)

(f) Solvency requirements of the 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 business.

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

		Consolidated Wealth Management					
		Statutory Fund No. 1		Statutory fund No. 2		Total statutory funds	
		2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m
Solvency requirement							
Minimum termination value		1,909	1,702	1,545	1,258	3,454	2,960
Other liabilities		210	170	40	16	250	186
Solvency reserve		301	302	20	6	321	308
Solvency requirement		2,420	2,174	1,605	1,280	4,025	3,454
Assets available for solvency reserve							
Excess of net policy liabilities (includes policy owner bonuses) over minimum termination value		379	301	13	(18)	392	283
Net assets		115	128	59	71	174	199
Liability for policy owner retained profits at the end of financial year		270	324	-	-	270	324
		764	753	72	53	836	806
Solvency reserve	%	14.2	16.1	1.2	0.4	8.7	9.8
Coverage of solvency reserve	times	2.5	2.5	3.6	9.3	2.6	2.6

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.

37. Specific disclosures – Wealth Management (continued)

(g) Wealth Management risk management

Refer to note 34 for details of the Group's general risk management framework.

The Life Company has 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 39.

The Life Company 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.

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.

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 Statement 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 oversighted by the Board Risk Committee.

In an effort to protect and enhance shareholder value, the Group actively 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 to support adverse risk scenarios, along with other cash flow analyses, and prudent and diversified underwriting and 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 Insurance Act 1995*. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Capital

Capital is allocated by the Group to the portfolios of contracts with similar risks or is held in a central reserve based on management's assessment of the risks to which each line of business is exposed and its view of the profitability of the products that are sold.

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.

The following table provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance and investment contracts issued by the Group depend.

Notes to the Financial Statements

for the year ended 30 June 2006

37. Specific disclosures – Wealth Management (continued)

(g) Wealth Management risk management (continued)

Insurance risk (continued)

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting the timing and uncertainty of future cash flows
Long term non participating insurance contracts with fixed and guaranteed terms (Term Life and Disability)	Guaranteed benefits paid on death and ill health that are fixed which are not at the discretion of the issuer.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, lapses, expenses and market earning rates on the assets backing the liabilities.
Conventional life insurance contracts with discretionary participating benefits (Endowment and Whole of Life)	These policies combine life insurance and savings. The 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 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.
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.

37. Specific disclosures – Wealth Management (continued)

(g) Wealth Management risk management (continued)

Insurance risk (continued)

Claims management

Claims are managed through a dedicated claims management team, 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 A+ 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 is in place for this policy, the concentration of such workforces in single locations remains a factor that exposes the Group 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 occurs 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 entity has 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 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.

Asset and liability management techniques

Assets are allocated to different classes of business using a risk based approach. Duration analysis is primarily used for interest-sensitive products and policies with long term fixed payout patterns. 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 1(j). The repricing periods attributable to the Group are set out in note 37(h).

37. Specific disclosures – Wealth Management (continued)

(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 Fund 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.

A subsidiary, 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 mandate 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 mandate was 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 mandate is regularly reviewed to ensure the risks are within the predicted limits.

In accordance with the accounting policy discussed in note 1(j), 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 39.

Liquidity risk

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.

These solvency requirements also take into account specific risks faced by the Group.

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

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes reputational and legal risks. Operational risk events are tracked and monitored via a central loss database and reported regularly to the Executive Risk Committee and the Board Risk Committee.

Risks which cross all business units such as business continuity and regulatory compliance are coordinated centrally by Group Operational Risk department or Group Policy and Compliance. These risks are owned and managed by the Executive Risk Committee with monitoring by the Board Risk Committee. The Assurance function conducts reviews of the adequacy and effectiveness of internal controls, which includes compliance with policy and regulatory requirements.

37. Specific disclosures – Wealth Management (continued)

(h) Interest rate risk

	Consolidated Wealth Management					
	Total $m	Floating interest rate $m	1 year or less $m	2 to 5 years $m	Over 5 years $m	Effective interest rate %
2006						
Cash and short term cash equivalents	5	5	-	-	-	5.7
Cash on deposit	182	182	-	-	-	4.3
Margin deposits	19	19	-	-	-	4.2
Receivables	13	13	-	-	-	8.3
Fixed interest securities	586	-	116	392	78	6.0
Mortgage backed securities	279	-	279	-	-	6.2
Discount securities	289	-	289	-	-	5.8
Floating rate notes	280	-	280	-	-	6.4
Money market securities	164	-	154	10	-	6.4
	1,817	219	1,118	402	78	5.9
2005						
Cash and short term cash equivalents	3	3	-	-	-	5.5
Cash on deposit	204	204	-	-	-	5.2
Margin deposits	23	23	-	-	-	4.1
Receivables	13	13	-	-	-	8.5
Fixed interest securities	748	-	218	406	124	6.2
Mortgage backed securities	437	-	431	6	-	6.0
Discount securities	189	-	189	-	-	5.8
Floating rate notes	209	-	209	-	-	6.2
Money market securities	166	-	97	69	-	6.1
	1,992	243	1,144	481	124	5.9

37. Specific disclosures – Wealth Management (continued)

(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 business 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 Company's 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 Company shares 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 37(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 Company 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 sheets 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 an other liability in the balance sheets and amortised over the period to which the policy is expected to provide income.

(j) Actuarial assumptions and methods – policy liabilities

For general assumptions relating to gross policy liabilities, refer note 26.

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 Group's 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 Group 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 rate 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 duration would be likely to 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.

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.

37. Specific disclosures – Wealth Management (continued)

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

The table below illustrates how changes in key assumptions would impact the expected reported profit (over the next financial year) and policy liabilities and equity at 30 June 2006 of the Group.

Sensitivity analysis (continued)

	Change [1]	Profit/(loss) (net of reinsurance) $m	Change in insurance contract liablity (net of reinsurance) $m
Variable			
Maintenance expense	+ 10% increase	-	-
Mortality and lump sum morbidity	+ 10% increase	1	(1)
Morbidity – disability income	+ 10% increase in incidence and decrease in recovery rates	(4)	5
Discontinuance rates	+ 10% increase	-	-

Notes

[1] Change is an absolute, rather than relative, change.

The table below illustrates the effects of changes in actuarial assumptions from 30 June 2005 to 30 June 2006.

	Effect on future profit margins $m	Effect on policy liabilities $m
Assumption category		
Discount rates (risk business)	-	(4)
Discount rates (participating business)	13	-
Mortality and morbidity	1	-
Lapse and surrender rates	24	-
Maintenance expenses	(4)	-
Premium rate changes	(4)	-

38. Financing arrangements

	Consolidated 2006 available $m	2006 unused $m	2005 avaliable $m	2005 unused $m
Unrestricted access was available at balance date to the following:				
Group overdraft limit	30	30	30	30
The Group had the following debt programs [(1)] outstanding at year end:				
USD $15 billion program	20,194	13,701	19,634	12,179

Notes

(1) The Group also has access to an unlimited AUD Domestic Programme

39. 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.

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.

(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 35(g).

39. Derivative financial instruments (continued)

(a) Banking activities (continued)

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 35(g).

	Consolidated Face value $m	Banking Face value $m
2006		
Exchange rate related contracts [1]		
Forward foreign exchange contracts	6,864	40
Cross currency swaps	6,148	(1)
Currency options	138	-
	13,150	39
Interest rate related contracts [2]		
Forward rate agreements	60	-
Interest rate swaps	20,465	80
Interest rate futures	105	-
Interest rate options	349	-
	20,979	80
Total derivative exposures [3]	34,129	119
2005		
Exchange rate related contracts [1]		
Forward foreign exchange contracts	9,205	(123)
Cross currency swaps	3,957	(376)
Currency options	88	2
	13,250	(497)
Interest rate related contracts [2]		
Forward rate agreements	350	-
Interest rate swaps	19,624	79
Interest rate futures	324	-
Interest rate options	322	-
	20,620	79
Total derivative exposures [3]	33,870	(418)

Notes

[1] The credit equivalent of the exchange rate related contracts is $339 million (2005: $265 million).

[2] The credit equivalent of the interest rate related contracts is $155 million (2005: $181 million).

[3] The credit equivalent of the total derivative exposures is $494 million (2005: $446 million).

(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.

39. Derivative financial instruments (continued)

(b) Insurance activities (continued)

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.

The details of notional principal amounts and remaining duration of these derivative financial instruments at balance date are as follows:

	Consolidated Insurance	
	Notional principal amount 2006 $m	Notional principal amount 2005 $m
General Insurance		
Less than one year	1,397	873
Greater than one year	185	126
Life Insurance		
Less than one year [(1)]	3,174	2,232

Notes

(1) Of the total notional principal amount, $1,651 million (2005: $1,044 million) is subject to an interest rate risk of 5.6% (2005: 4.4%). The remaining $1,523 million (2005: $1,188 million) is not subject to interest rate risk.

Derivative financial instruments are investments integral to insurance activities 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 2006 $m	Fair value 2006 $m	Face value 2005 $m	Fair value 2005 $m
General Insurance				
Forward exchange contracts	29	-	149	-
Interest rate futures	1,058	(2)	388	3
Equity futures	475	(16)	462	(3)
Credit default swaps	20	-	-	-
	1,582	(18)	999	-
Life Insurance				
Forward exchange contracts	179	-	425	(2)
Interest rate futures	1,651	(1)	1,044	1
Equity futures	1,344	(19)	763	(3)
	3,174	(20)	2,232	(4)

40. Financial instruments

Refer note 34 for discussion on the exposure to risks that arise in the normal course of the Group's business. Refer note 39 for specific discussion on derivative financial instruments.

(a) Fair values

These amounts represent estimates of net 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 2006 $m	Fair value 2006 $m	Carrying value 2005 $m	Fair value 2005 $m	Carrying value 2006 $m	Fair value 2006 $m	Carrying value 2005 $m	Fair value 2005 $m
Financial assets								
Cash and cash equivalents	489	489	1,084	1,084	217	217	652	652
Receivables due from other banks	26	26	67	67	26	26	67	67
Trading securities	3,773	3,773	3,396	3,396	3,773	3,773	3,396	3,396
Investment securities	10,926	10,926	9,958	9,958	2,095	2,095	2,052	2,052
Loans, advances and other receivables	39,635	39,609	35,771	35,786	36,421	36,396	29,446	29,458
Bank acceptances of customers	316	316	74	74	316	316	74	74
Due from subsidiaries	-	-	-	-	3,956	3,956	2,082	2,082
Other financial assets	600	600	547	547	200	200	129	129
Financial liabilities								
Deposits and short term borrowings	27,683	27,683	27,157	27,161	27,683	27,683	27,157	27,161
Payables due to other banks	120	120	66	66	120	120	66	66
Bank acceptances	316	316	74	74	316	316	74	74
Payables	781	781	1,044	1,044	403	403	906	906
Due to subsidiaries	-	-	-	-	7,534	7,534	399	399
Securitisation liabilities	5,700	5,700	3,906	3,906	-	-	-	-
Bonds, notes and long term borrowings	5,560	5,551	4,468	4,468	5,504	5,495	4,408	4,408
Subordinated notes	1,466	1,466	968	968	1,271	1,271	770	770
Preference shares	250	250	-	-	250	250	-	-

The fair value of derivative financial instruments can be found in Note 39.

The estimated net 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.

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 net market value which equates to net fair value.

The carrying value of loans, advances and other receivables is net of general and collective (2005: specific) provisions for impairment (2005: and interest reserved). For variable rate loans, excluding impaired loans, the carrying amount is considered a reasonable estimate of net fair value. The net 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 net fair value.

40. Financial instruments (continued)

(a) Fair values (continued)

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 net fair value. Discounted cash flow models are used to calculate the net 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 net fair value.

The net 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 net fair value. For longer term liabilities, net 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 43. As explained in that note, no material losses are anticipated in respect of any of those contingencies.

The net fair value of commitments to extend credit, letters of credit, guarantees, warranties and indemnities issued was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risk and attract fees in line with market prices for similar arrangements. They are not sold or traded by the Group. The items generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. The net fair value may be represented by the present value of fees expected to be received, less associated costs. The overall level of fees involved is not material.

Derivative financial instruments

Net 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 2006 was $15 million (30 June 2005: $129 million).

40. Financial instruments (continued)

(b) Hedging (continued)

Banking activities (continued)

	Consolidated Banking 2006	
	Fair value hedges $m	Cash flow hedges $m
Hedging of fluctuations in interest rates		
Notional value of interest rate swaps designated as hedges	200	12,311
Fair value:		
net receive interest rate swaps	-	(10)
net pay interest rate swaps	(1)	82
	(1)	72

	Split approach $m
Hedging of fluctuations in foreign exchange rates	
Notional value of cross currency swaps designated as hedges	6,148
Fair value:	
net receive cross currency swaps	135
net pay cross currency swaps	(136)
	(1)
Cashflow hedges – amounts recognised in equity	
Balance at the beginning of the financial year	22
Amount removed from equity and included in profit or loss for the period	
cash flow interest rate swap hedges	2
split approach across cross currency swap hedges	(1)
Cumulative gains and losses deferred to equity for current hedges	
cash flow interest rate swap hedges	(45)
split approach across cross currency swap hedges	2
Income tax impact on cashflow hedges	6
Balance at the end of the financial year	(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 entity has one interest rate swap designated as a hedge and it is classified as a fair value hedge of a fixed rate subordinated debt issue. All other interest rate derivatives are accounted for as fair value through the Income Statement.

	Consolidated Insurance 2006	
	Fair value hedges $m	Cash flow hedges $m
Hedging of fluctuations in interest rates		
Notional value of interest rate swaps designated as hedges	135	-
Fair value:		
net pay interest rate swaps	(2)	-
	(2)	-

41. Fiduciary activities

The Group conducts investment management and other fiduciary activities as trustee, custodian or manager for various investment funds and trusts, Suncorp Metway 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 statements.

Where subsidiaries, as single responsible entities or trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the subsidiaries will be required to settle them, the liabilities are not included in the consolidated financial statements. At 30 June 2006, the value of assets under management was $1,744 million (2005: $1,570 million).

42. 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	
	2006 $m	2005 $m	2006 $m	2005 $m
Notional amounts				
Guarantees entered into in the normal course of business	363	238	363	238
Commitments to provide loans and advances	5,876	5,470	5,876	5,470
	6,239	5,708	6,239	5,708
Credit equivalent amounts				
Guarantees entered into in the normal course of business	200	134	200	134
Commitments to provide loans and advances	1,249	1,214	1,249	1,214
	1,449	1,348	1,449	1,348

(b) Operating lease commitments

Aggregate future non-cancellable operating lease rentals contracted for but not provided in the financial statements are payable as follows:

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
Less than one year	54	45	45	36
Between one and five years	118	109	115	99
More than five years	46	42	46	42
	218	196	206	177

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.

42. Commitments (continued)

	Consolidated 2006 $m	Consolidated 2005 $m	Company 2006 $m	Company 2005 $m
(c) Finance lease receivables				
Gross investment in finance lease receivables:				
Less than one year	146	153	38	54
Between one and five years	278	269	20	59
More than five years	11	5	-	-
	435	427	58	113
Unearned future income on finance leases	(54)	(51)	(3)	(9)
Net investment in finance lease receivables	381	376	55	104
Net investment in finance lease receivables:				
Less than one year	141	148	37	52
Between one and five years	233	225	18	52
More than five years	7	3	-	-
	381	376	55	104
(d) Expenditure commitments				
Expenditure for the acquisition of plant and equipment contracted for but not provided in the financial statements is payable as follows:				
Within one year	20	7	1	1

43. 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 statements 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 42 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 consolidated entity.

Material changes in contingent liabilities since 30 June 2005 are as follows:

- At 30 June 2005, AMP Life Limited held 15,028,800 unexercised cash settleable warrants in relation to the Group's acquisition of 100% of GIO Insurance Investment Holdings A Pty Ltd and its wholly-owned subsidiaries during the 2002 financial year. The warrants were exercised during the period and were settled by the issuance of 3,422,400 new ordinary shares.
- Also at 30 June 2005, the Group disclosed a contingent liability in relation to a lease securitisation and defeasance transaction entered into by a subsidiary, Suncorp Metway Insurance Limited. On transition to AIFRS, this lease securitisation and defeasance transaction has been recognised as a liability, with a corresponding increase in the asset recognised under previous GAAP.

(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.

44. 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

Banking entities

Series 1999-1 APOLLO Trust
APOLLO Series 2002-1 Trust
APOLLO Series 2002-2 Trust
APOLLO Series 2003-1E Trust
APOLLO Series 2003-2 Trust
APOLLO Series 2004-1E Trust
APOLLO Series 2004-2 Trust
APOLLO Series 2005-1E Trust
APOLLO Series 2005-2 Trust
APOLLO Series 2006-1E Trust
Excelle Pty Ltd
First National Financial Solutions Limited (formerly LJ Hooker Financial Services Limited)
Graham & Company Limited (1)
Metway Leasing Limited
National Finance Network Limited (formerly Metway Credit Corporation Limited)
QIDC Limited
SIS Super Pty Ltd (2)
SME Management Pty Limited
Suncorp Finance Limited
  Subsidiaries of Suncorp Finance Limited
    Medical & Commercial Finance Corporation Limited
Suncorp Metway Advances Corporation Pty Ltd
Suncorp Metway Equipment Leasing Pty Ltd (2)
Suncorp Metway Staff Pty Ltd
Suncorp Metway Executive Performance Share Plan Trust

General Insurance entities

Suncorp Metway Insurance Ltd (1)(3)-(7)
  Subsidiaries of Suncorp Metway Insurance Ltd
    GIO Insurance Investment Holdings A Pty Limited
      Subsidiaries of GIO Insurance Investment Holdings A Pty Limited
        GIO Australia Limited
          Subsidiaries of GIO Australia Limited
            GIO Technical Services Pty Limited (2)
        GIO General Limited (4)-(7)
          Subsidiaries of GIO General Limited
            GIO Workers Compensation (NSW) Limited
            GIO Workers Compensation (Victoria) Limited
    RACT Insurance Pty Ltd
    SPDEF Pty Ltd (2)
    Suncorp Metway Risk Management Pte Ltd (incorporated in Singapore) (8)
    Suncorp Property Development Equity Fund
    The Park Road Property Trust (47.5% interest) (1)

Wealth Management entities

Suncorp Life & Superannuation Limited
  Subsidiaries of Suncorp Life & Superannuation Limited (3)-(7)
    SIP Super Pty Ltd (2)
    Suncorp Financial Services Pty Ltd (formerly SUNCORP Financial Planning Pty Ltd)
    Suncorp Superannuation Pty Ltd
    Suncorp Investment Management Australian Cash Trust (71.25% interest) (3)
    Suncorp Investment Management Australian Equities Trust (74.82% interest) (4)
    Suncorp Investment Management Australian Fixed Interest Trust (89.42% interest)
    Suncorp Investment Management Global Macro Tactical Asset Allocation Trust (64.16% interest) (5)
    Suncorp Investment Management Property Securities Trust (68.72% interest) (6)
    Suncorp Investment Management World Equities Trust (67.06% interest) (7)
    Suncorp Investment Management World Fixed Interest Trust (92.12% interest)
      Subsidiaries of Suncorp Investment Management World Fixed Interest Trust
        Suncorp Investment Management Mortgage Backed Trust (94.38% interest)
Suncorp Metway Investment Management Limited
  Subsidiaries of Suncorp Metway Investment Management Limited
    SUNCORP Custodian Services Pty Ltd
    SUNCORP Noosa Management Pty Ltd (2)

Refer end of note for footnotes

44. Consolidated entities (continued)

(b) Subsidiaries of Suncorp-Metway Ltd (continued)

Other entities

Hooker Corporation Limited
- Subsidiaries of Hooker Corporation Limited
  - Hooker Corporate (ACT) Pty Limited [2]
  - Hooker Corporate (QLD) Pty Limited [2]
  - Hooker Corporate (SA) Pty Limited [2]
  - Hooker Corporate (TAS) Pty Limited [2]
  - Hooker Corporate (VIC) Pty Limited [2]
  - Hooker Corporate (WA) Pty Limited [2]
  - Hooker (Superannuation) Pty Limited [2]
  - L J Hooker Financial Services Pty Limited [2]
  - L J Hooker Limited
  - L J Hooker Limited (incorporated in Hong Kong) (8)
  - L J Hooker Limited (incorporated in United Kingdom) (8)
  - L J Hooker (NZ) Limited (8)
    - Subsidiaries of L J Hooker (NZ) Limited
      - L J Hooker Group Limited (incorporated in New Zealand) [8]
      - L J Hooker Limited (incorporated in New Zealand) [8]
      - Challenge Realty Group Limited (incorporated in New Zealand) [8]
  - L J Hooker (Singapore) Pte Ltd (incorporated in Singapore) [8]
  - Property Training Solutions Pty Ltd [2]

Suncorp Investment Management Imputation Trust (50.56% interest) [9]

Except as otherwise noted, the Company's beneficial interest in all subsidiaries is 100% and they are incorporated in Australia.

Notes

[1] Suncorp Metway Insurance Ltd holds a 47.5% interest and Graham & Company Limited (a subsidiary of Suncorp-Metway Ltd) holds a 18.2% interest in The Park Road Property Trust.

[2] A number of subsidiaries are small proprietary companies. Accordingly, they are not required to produce, and have not produced, audited financial statements.

[3] Suncorp Life & Superannuation Limited holds a 71.25% interest and Suncorp Metway Insurance Ltd holds a 21.07% interest in the Suncorp Investment Management Australian Cash Trust.

[4] Suncorp Life & Superannuation Limited holds a 74.82% interest, GIO General Limited holds a 2.54% interest and Suncorp Metway Insurance Ltd holds a 3.47% interest in the Suncorp Investment Management Australian Equities Trust.

[5] Suncorp Life & Superannuation Limited holds a 64.16% interest, GIO General Limited holds a 14.61% interest and Suncorp Metway Insurance Ltd holds a 17.99% interest in the Suncorp Investment Management Global Macro Tactical Asset Allocation Trust.

[6] Suncorp Life & Superannuation Limited holds a 68.72% interest, GIO General Limited holds a 7.18% interest and Suncorp Metway Insurance Ltd holds a 2.98% interest in the Suncorp Investment Management Property Securities Trust.

[7] Suncorp Life & Superannuation Limited holds a 67.06% interest, GIO General Limited holds a 7.87% interest and Suncorp Metway Insurance Ltd holds a 6.79% interest in the Suncorp Investment Management World Equities Trust.

[8] Audited by another member firm of KPMG International.

[9] Suncorp Life & Superannuation Limited holds a 50.56% 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.

45. Changes in the composition of the Group

(a) Subsidiaries

Acquisitions

The Group did not acquire any subsidiaries during the current or comparative reporting periods.

Disposals

The following subsidiaries were deregistered during the current 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

The following subsidiaries were deregistered during the comparative reporting period:

Name of entity	Date deregistered
Shelbourne Investments Pty Ltd (upon completion of voluntary liquidation)	15 January 2005
Metfin Capital Pty Ltd (upon completion of voluntary liquidation)	2 March 2005
Graham & Company Securities Limited	22 May 2005

Control

As a result of adopting AIFRS, control has been recognised for the following managed investment schemes at 1 July 2004:

Name of entity	Ownership interest initially recognised	Ownership interest at reporting date
Suncorp Investment Management Australian Cash Trust	75.65%	92.32%
Suncorp Investment Management Imputation Trust	57.27%	50.56%
Suncorp Investment Management Property Securities Trust	67.53%	78.88%
Suncorp Investment Management Mortgage Backed Securities Trust	59.08%	86.94%

Under previous GAAP, control had been recognised for the following managed investment schemes during the financial year ended 30 June 2005:

Name of entity	Date control obtained	Ownership interest initially recognised	Ownership interest at reporting date
Suncorp Investment Management World Equities Trust	1 July 2004	78.35%	81.72%
Suncorp Investment Management Global Macro Tactical Asset Allocation Trust	1 September 2004	100.00%	96.76%
Suncorp Investment Management Australian Cash Trust	1 April 2005	81.13%	92.32%

Control over Suncorp Metway Executive Performance Share Plan Trust has also been recognised as at 1 July 2004 as a result of adopting AIFRS. Ownership interest is 100% at initial recognition and reporting date.

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

(b) Associates and joint venture entities

The Group did not acquire any interests in associates or joint venture entities during the current or comparative reporting periods. However, as a result of adopting AIFRS, significant influence has been recognised over the following managed investment schemes at 1 July 2004:

Name of entity	Ownership interest initially recognised	Ownership interest at reporting date
Suncorp Metway Wholesale Balanced Account Fund	38.49%	-
Suncorp Investment Management World Equities PST	28.67%	-

The Group did not dispose of any interests in associates or joint venture entities during the current or comparative reporting periods except for the two managed investment schemes shown above.

46. Reconciliation of cash flows from operating activities

	Consolidated		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Profit after income tax	916	882	817	912
Classified as investing activities				
Income tax paid – investing activities	218	179	-	-
Non-cash items				
Share based payments amortisation	4	2	3	3
Change in net market value of trading securities	(7)	(32)	(8)	(10)
Change in net market value of investments	(622)	(518)	-	-
Impairment losses on loans and advances	31	27	24	21
Depreciation/amortisation of property, plant and equipment and intangible assets	69	74	-	1
Loss on disposal of property, plant and equipment	-	1	-	-
Share of net profits of joint ventures accounted for using the equity method	(6)	(14)	-	-
Change in assets and liabilities				
Gross up of GST on lease instalments included in operating payments	16	14	12	9
Net movement in tax balances	(33)	128	(26)	90
(Increase)/decrease in accrued interest receivable	11	(31)	(17)	-
Increase in prepayments and deferred expenses	(46)	(31)	(29)	(8)
Increase in excess of net market value of interests in subsidiaries	(40)	(171)	-	-
Increase in bank securities	(612)	(889)	(611)	(910)
Increase in loans, advances and other receivables	(3,736)	(4,876)	(5,115)	(4,340)
(Increase)/decrease in receivables and other financial assets	(143)	126	(22)	(60)
Increase/(decrease) in accrued interest payable	61	5	36	(19)
Increase in deposits and short term borrowings	289	3,276	3,723	4,303
Increase/(decrease) in sundry creditors and accrued expenses	110	(27)	(103)	103
Increase in outstanding claims liability	82	327	-	-
Increase in unearned premiums liability	30	24	-	-
Increase in unexpired risk liability	10	-	-	-
Increase in life insurance gross policy liabilities	616	423	-	-
Decrease in policy owner retained profits	(54)	(24)	-	-
Increase /(decrease) in provisions	8	21	(3)	5
Net cash from operating activities	(2,828)	(1,104)	(1,319)	100

47. Key management personnel disclosures

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 the executives (other than executive directors) who received the highest remuneration for the year. There are no other executives employed within the Group that are considered to be Group KMPs or receive higher remuneration.

Mark Blucher	Group Executive Retail Banking Customers
Diana Eilert	Group Executive General Insurance
Bernadette Inglis	Group Executive Wealth Management, Group Strategy and Group Marketing
Hemant Kogekar	Group Executive Information Technology
Peter Johnstone	Group Executive HR, Projects & Central Services
Stuart McDonald	Group Executive Business Banking Customers (appointed to this role 1 December 2005)

In addition, Ray Reimer held the position of Group Executive Business Banking Customers until his resignation on 31 December 2005.

The following changes have been made to the executive team structure as at 1 July 2006:

Mark Blucher	Group Executive Insurance – Personal Lines
Diana Eilert	Group Executive People, Technology and Marketing
David Foster	Group Executive Group Strategy
Bernadette Inglis	Group Executive Retail & Wealth Management
Hemant Kogekar	Resigned 6 July 2006
Peter Johnstone	Group Executive
Stuart McDonald	Group Executive Business Banking Customers
Mark Milliner	Group Executive Insurance – Commercial Lines

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
Rodney F Cormie (Retired 26 October 2005)
Dr Cherrell Hirst AO
James J Kennedy AO CBE
Martin D E Kriewaldt
Dr Zygmunt E Switkowski (Appointed 19 September 2005)
Christopher Skilton (Chief Financial Officer and Executive Director)

(a) Key management personnel compensation

The key management personnel compensation included in 'Staff expenses' (refer note 6) are as follows:

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Short term employee benefits	10,973,188	10,308,891	10,973,188	10,308,891
Long term employee benefits	(833)	27,769	(833)	27,769
Post-employment benefits	138,085	201,256	138,085	201,256
Equity compensation benefits	3,783,015	2,647,401	3,783,015	2,647,401
	14,893,455	13,185,317	14,893,455	13,185,317

47. Key management personnel disclosures (continued)

(b) Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation is provided in the Remuneration Report at section 5 of the Directors' report.

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.

(c) 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 2005 $	Balance 30 June 2006 $	Interest charged $	Highest balance in period $
Executives				
M Blucher	750,475	1,084,142	80,200	1,173,431
P Johnstone	853,436	897,258	59,332	897,258
H Kogekar	225,121	224,239	4,593	225,121
S McDonald	-	1,322,624	51,244	1,331,520
R Reimer	855,243	1,785,350	173,433	2,015,089

New loan facilities totalling $1.2 million (2005: $nil) 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	Balance Closing balance	Interest charged	Individuals in group at 30 June
Total for key management personnel 2006	2,684,275	5,613,939	356,893	5
Total for key management personnel 2005	2,442,010	2,684,275	157,256	4
Total for other related parties 2006	-	134,955	11,909	1
Total for other related parties 2005	-	-	-	-
Total for key management personnel and their related parties 2006	2,684,275	5,748,894	368,802	6
Total for key management personnel and their related parties 2005	2,442,010	2,684,275	157,256	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.

47. Key management personnel disclosures (continued)

(d) 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 is the total of annual fees paid by the Company to the director in respect of the highest consecutive three years of service.

Mr John D Story was, up until 30 June 2006, a partner of Corrs Chambers Westgarth Lawyers, which from time to time rendered legal services to the Company in the ordinary course of business. Mr Story remains as non-executive Chairman of that firm. Fees paid to the firm during the financial year amounted to $2,057,239 (2005: $1,375,277). Amounts currently payable at balance date to Corrs Chambers Westgarth Lawyers totalled $nil (2005: $30,820).

Mr Martin D E Kriewaldt provides advice to Aon Holdings Australia Limited and Allens Arthur Robinson Lawyers. Those firms provided insurance brokerage and legal services respectively, to the Group. These services are provided under normal terms and conditions.

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.

Apart from the details disclosed in this note, no director, executive or their related parties has entered into a material contract with the Group during the reporting period, and there were no material contracts involving directors, executives or their related parties existing at the end of the reporting period.

(e) 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					Vested at 30 June 2006		
	Balance 1 July 2005	Options exercised	Net change other	Balance 30 June 2006	Vested during the year	Total	Exercisable	Not exercisable
Directors								
C Skilton	350,000	(233,333)	-	116,667	-	116,667	116,667	-
Executives								
M Blucher	109,000	(75,000)	-	34,000	-	34,000	34,000	-
P Johnstone	126,000	(84,000)	-	42,000	-	42,000	42,000	-
R Reimer	44,000	(35,000)	(9,000)	-	-	-	-	-

47. Key management personnel disclosures (continued)

(f) 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 2005	Received as compensation [(2)]	Options exercised	Purchases (sales)	Other changes	Balance 30 June 2006
Directors						
Executive directors						
J F Mulcahy	600,000	120,000	-	-	-	720,000
C Skilton	194,932	40,465	233,333	(35,000)	-	433,730
Non-executive directors						
J D Story	74,491	3,369	-	-	-	77,860
W J Bartlett	8,981	4,072	-	-	-	13,053
I D Blackburne	19,599	2,232	-	-	-	21,831
R F Cormie [(3)]	15,735	-	-	-	(15,735)	-
C Hirst	4,052	1,059	-	2,000	-	7,111
J J Kennedy	20,000	-	-	(19,000)	-	1,000
M D E Kriewaldt	48,658	-	-	243	-	48,901
Z E Switkowski [(4)]	-	-	-	10,000	-	10,000
Executives						
M Blucher	225,243	24,515	75,000	(42,000)	-	282,758
D Eilert	56,946	30,349	-	-	-	87,295
B Inglis	66,946	30,349	-	-	-	97,295
P Johnstone	409,179	20,915	84,000	11,206	-	525,300
H Kogekar	14,860	25,291	-	9,914	-	50,065
S McDonald [(5)]	-	16,692	-	2,348	24,509	43,549
R Reimer [(6)]	323,974	15,175	35,000	-	(374,149)	-

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 those shares remains subject to satisfaction of specified performance hurdles. In regard to the 720,000 shares attributed to Mr Mulcahy, 520,000 of those shares remain subject to TSR performance hurdles.

(2) For executive directors and executives, includes shares allocated under the Executive Performance Share Plan. These shares are recorded in the Company's share register in the executive's name when allocated, but the shares vest only when performance hurdles are met. 53,600 shares vested during the 2006 financial year (2005: nil). The remuneration disclosure includes the fair value of the shares allocated over the vesting period. For non-executive directors, includes shares relating to a 'salary sacrifice' under the Non-executive Directors Share Plan.

(3) Mr Cormie retired during the period. Shares held upon resignation are shown in 'Other changes'.

(4) Mr Switkowski was appointed during the period. Shares held upon appointment are shown in 'Other changes'.

(5) Mr McDonald was appointed during the period. Shares held upon appointment are shown in 'Other changes'.

(6) Mr Reimer resigned during the period. Shares held upon resignation 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 statements are set out in the Directors' Report.

48. Other related party disclosures

(a) Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 44), associates and joint ventures (see note 14) and with its key management personnel (see note 47).

48. Other related party disclosures (continued)

(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 5 and 6.

	Company	
	2006 $000	2005 $000
Current amounts receivable		
Subsidiaries	3,955,888	2,081,711
Current amounts payable		
Subsidiaries	7,533,560	398,762

(c) Other related party transactions with associates and joint venture

Transactions between the Group and associates and joint ventures consisted of fees received and paid for information technology services, investment management services and overseas management services. All these transactions were on a normal commercial basis.

The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:

	Consolidated	
	2006 $000	2005 $000
Other revenue received or due and receivable		
Associates	6	8
Joint venture entities	9,959	10,887
Other expenses paid or due and payable		
Associates	600	940
Aggregate amounts receivable from, and payable to, each class of related parties at balance date:		
Current receivables		
Associates	-	2
Joint venture entities	971	1,834
Current payables		
Associates	-	230

49. Subsequent events

After balance date, the Group established a securitisation warehouse trust ($2 billion limit). The first assignment, in the order of $300 million, occurred on 25 August 2006 with settlement due on 4 September 2006.

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.

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards

As stated in note 1(a), the Group has prepared these consolidated financial statements in accordance with AIFRS. As these consolidated financial statements are for the first year end reported in accordance with AIFRS, it is necessary to explain how the transition from the previous GAAP to AIFRS affected the previously reported financial position, financial performance and cash flows since 30 June 2004.

The Group transitioned to AIFRS on 1 July 2004. In preparing the opening AIFRS Balance Sheet, comparative information for the year ended 30 June 2005 has been restated using AIFRS with certain exceptions. An explanation of the impact of transition to AIFRS of the standards applied to the comparative information is set out in Part A of this note.

As permitted by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Group has elected not to apply AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 4 *Insurance Contracts* and the revised AASB 1023 *General Insurance Contracts* (as amended June 2005) and AASB 1038 *Life Insurance Contracts* (as amended June 2005) to the comparative information, and therefore these standards apply from 1 July 2005. An explanation of the impact of these standards on the transition to AIFRS is set out in Part B of this note.

This note includes reconciliations and accompanying notes that set out the effect of the transition to AIFRS for significant changes in accounting policies at 1 July 2004, 30 June 2005 and 1 July 2005. The Balance Sheet reconciliations contain two transition impact columns for each reporting date as well as the previous GAAP and restated AIFRS amounts. The 'reclassify' column represents the reclassification of amounts from their previous GAAP Balance Sheet lines to the appropriate AIFRS Balance Sheet lines. The 'remeasure' column represents adjustments due to a change in the measurement basis from the previous GAAP and includes additional entities consolidated under AIFRS. The Income Statement reconciliations contain the previous GAAP amounts, adjustment column and restated AIFRS amounts.

Notes to the Financial Statements

for the year ended 30 June 2006

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period

The restated consolidated Balance Sheets at 1 July 2004 and 30 June 2005 and the restated consolidated Income Statements for the year ended 30 June 2005 are set out on the following pages. The restated consolidated Balance Sheets and consolidated Income Statements reflect all AIFRS adjustments, whereas the notes following only include the significant adjustments.

	Note	Previous GAAP $m	Transition impact Reclassify $m	Transition impact Remeasure $m	AIFRS $m
Restated Balance Sheet at 1 July 2004					
Consolidated					
Assets					
Cash and cash equivalents	(b), (j)	714	-	94	808
Receivables due from other banks		163	-	-	163
Other financial assets					
Trading securities		2,549	-	-	2,549
Investment securities	(b), (k)	8,970	(167)	393	9,196
Investments in associates and joint ventures	(k)	100	87	-	187
Loans, advances and other receivables	(b), (j), (k)	28,907	(4)	2,316	31,219
Property, plant and equipment	(e), (g)	184	(84)	-	100
Investment property	(j), (k)	-	84	56	140
Intangible assets	(e), (g)	984	95	(15)	1,064
Excess of net market value of life insurance subsidiaries	(c)	15	-	(15)	-
Other assets	(b), (e), (f), (h), (i)	567	(11)	(12)	544
Total assets		**43,153**	**-**	**2,817**	**45,970**
Liabilities					
Deposits and short term borrowings		24,287	-	-	24,287
Payables due to other banks		70	-	-	70
Payables and other liabilities	(b), (h)	1,125	-	(75)	1,050
Current tax liabilities		104	-	-	104
Provisions		130	-	-	130
Deferred tax liabilities	(d)	20	-	(16)	4
Outstanding claims and unearned premiums liabilities		5,176	-	-	5,176
Gross policy liabilities		2,822	-	-	2,822
Unvested policy owner benefits	(d)	349	-	(1)	348
Securitisation liabilities	(b)	-	-	2,410	2,410
Bonds, notes and long term borrowings	(j)	3,925	-	61	3,986
Subordinated notes		805	-	(1)	804
Total liabilities		**38,813**	**-**	**2,378**	**41,191**
Net assets		**4,340**	**-**	**439**	**4,779**
Equity					
Share capital	(b), (i)	2,898	-	(17)	2,881
Reserves	(b), (d), (g)	24	(8)	(3)	13
Retained profits	(b) - (j)	1,070	8	(19)	1,059
Total equity attributable to equity holders of the parent		**3,992**	**-**	**(39)**	**3,953**
Outside equity interests	(b)	348	-	478	826
Total equity		**4,340**	**-**	**439**	**4,779**

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period (continued)

	Note	Previous GAAP $m	Transition impact Reclassify $m	Transition impact Remeasure $m	AIFRS $m
Restated Balance Sheet at 1 July 2004 (continued)					
Company					
Assets					
Cash and cash equivalents		323	-	-	323
Receivables due from other banks		163	-	-	163
Other financial assets					
Trading securities		2,549	-	-	2,549
Investment securities	(d), (i)	2,025	-	32	2,057
Loans, advances and other receivables		26,812	-	(2)	26,810
Due from subsidiaries	(d), (k)	1,813	16	(40)	1,789
Property, plant and equipment		34	-	-	34
Deferred tax assets	(d), (k)	-	(21)	36	15
Other assets	(e), (i)	208	-	1	209
Total assets		**33,927**	**(5)**	**27**	**33,949**
Liabilities					
Deposits and short term borrowings		24,714	-	-	24,714
Payables due to other banks		70	-	-	70
Payables and other liabilities	(h)	629	-	5	634
Current tax liabilities		104	-	-	104
Provisions		11	-	-	11
Due to subsidiaries	(k)	348	16	-	364
Deferred tax liabilities	(k)	21	(21)	-	-
Bonds, notes and long term borrowings		3,925	-	-	3,925
Subordinated notes		805	-	-	805
Total liabilities		**30,627**	**(5)**	**5**	**30,627**
Net assets		**3,300**	**-**	**22**	**3,322**
Equity					
Share capital	(i)	2,898	-	2	2,900
Reserves	(g)	21	(8)	-	13
Retained profits	(d), (e), (g)-(i)	381	8	20	409
Total equity		**3,300**	**-**	**22**	**3,322**

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period (continued)

	Note	Previous GAAP $m	Transition impact Reclassify $m	Transition impact Remeasure $m	AIFRS $m
Restated Balance Sheet at 30 June 2005					
Consolidated					
Assets					
Cash and cash equivalents	(b), (j)	1,064	-	20	1,084
Receivables due from other banks		67	-	-	67
Other financial assets					
Trading securities		3,396	-	-	3,396
Investment securities	(b), (k)	10,046	(178)	90	9,958
Investments in associates and joint ventures	(a), (k)	112	99	2	213
Loans, advances and other receivables	(b), (j), (k)	32,069	(16)	3,718	35,771
Bank acceptances of customers		74	-	-	74
Property, plant and equipment	(e), (g)	181	(76)	-	105
Investment property	(j), (k)	-	95	61	156
Intangible assets	(a), (e), (g)	922	86	93	1,101
Excess of net market value of life insurance subsidiaries	(c)	18	-	(18)	-
Other assets	(b), (e), (f), (h)-(j)	596	(10)	(23)	563
Total assets		**48,545**	**-**	**3,943**	**52,488**
Liabilities					
Deposits and short term borrowings		27,157	-	-	27,157
Payables due to other banks		66	-	-	66
Bank acceptances		74	-	-	74
Payables and other liabilities	(b), (h)	1,223	-	(179)	1,044
Current tax liabilities		182	-	-	182
Provisions	(a)	151	-	50	201
Deferred tax liabilities	(d)	72	-	(17)	55
Outstanding claims and unearned premiums liabilities		5,538	-	-	5,538
Gross policy liabilities		3,244	-	-	3,244
Unvested policy owner benefits	(d)	325	-	(1)	324
Securitisation liabilities	(b)	-	-	3,906	3,906
Bonds, notes and long term borrowings	(j)	4,408	-	60	4,468
Subordinated notes		969	-	(1)	968
Total liabilities		**43,409**	**-**	**3,818**	**47,227**
Net assets		**5,136**	**-**	**125**	**5,261**
Equity					
Share capital	(b), (i)	3,040	-	(22)	3,018
Reserves	(b), (d), (g)	27	(8)	(7)	12
Retained profits	(a)-(j)	1,433	8	43	1,484
Total equity attributable to equity holders of the parent		**4,500**	**-**	**14**	**4,514**
Outside equity interests	(b)	636	-	111	747
Total equity		**5,136**	**-**	**125**	**5,261**

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period (continued)

	Note	Previous GAAP $m	Transition impact Reclassify $m	Transition impact Remeasure $m	AIFRS $m
Restated Balance Sheet at 30 June 2005 (continued)					
Company					
Assets					
Cash and cash equivalents		652	-	-	652
Receivables due from other banks		67	-	-	67
Other financial assets					
Trading securities		3,396	-	-	3,396
Investment securities	(d), (i)	2,018	-	34	2,052
Loans, advances and other receivables		29,448	-	(2)	29,446
Bank acceptances of customers		74	-	-	74
Due from subsidiaries	(a), (d), (e), (i), (k)	2,047	49	(14)	2,082
Property, plant and equipment		33	-	-	33
Deferred tax asset	(d), (k)	-	(73)	75	2
Other assets	(e), (i)	139	-	5	144
Total assets		**37,874**	**(24)**	**98**	**37,948**
Liabilities					
Deposits and short term borrowings		27,250	-	-	27,250
Payables due to other banks		66	-	-	66
Bank acceptances		74	-	-	74
Payables and other liabilities	(h)	901	-	5	906
Current tax liabilities		182	-	-	182
Provisions	(a)	16	-	50	66
Due to subsidiaries	(k)	257	49	-	306
Deferred tax liabilities	(k)	73	(73)	-	-
Bonds, notes and long term borrowings		4,408	-	-	4,408
Subordinated notes		770	-	-	770
Total liabilities		**33,997**	**(24)**	**55**	**34,028**
Net assets		**3,877**	**-**	**43**	**3,920**
Equity					
Share capital	(l)	3,040	-	5	3,045
Reserves	(g)	21	(8)	-	13
Retained profits	(d), (e), (g)-(i)	816	8	38	862
Total equity		**3,877**	**-**	**43**	**3,920**

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period (continued)

	Note	Year ended 30 June 2005		
		Previous GAAP $m	Transition impact $m	AIFRS $m
Restated Income Statement for the year ended 30 June 2005				
Consolidated				
Revenue				
Banking interest revenue	(b)	2,324	203	2,527
Banking interest expense	(b)	(1,553)	(187)	(1,740)
		771	16	787
General insurance premium revenue		2,587	-	2,587
Life insurance premium revenue		113	-	113
Banking fee and commission revenue	(b)	225	(14)	211
Banking fee and commission expense		(82)	-	(82)
Reinsurance and other recoveries revenue		338	-	338
General insurance investment revenue				
- insurance provisions	(j)	296	6	302
- Shareholder Fund		199	-	199
Life insurance investment revenue	(c)	589	(3)	586
Other revenue	(b)	255	25	280
		5,291	30	5,321
Expenses				
Other expenses	(b), (e), (h), (i)	(1,252)	(8)	(1,260)
General insurance claims expense		(2,085)	-	(2,085)
Life insurance claims expense		(73)	-	(73)
Outwards reinsurance premium expense		(147)	-	(147)
Increase in net policy liabilities		(378)	-	(378)
(Increase)/decrease in unvested policy owner benefits		24	-	24
Non-banking interest expense		(26)	-	(26)
		(3,937)	(8)	(3,945)
Share of profits of associates and joint ventures	(a)	26	2	28
Profit before impairment losses on loans, amortisation of goodwill and tax		1,380	24	1,404
Impairment losses on loans and advances		(27)	-	(27)
Amortisation of goodwill	(a)	(61)	61	-
Profit before tax		1,292	85	1,377
Income tax expense	(d)	(389)	3	(386)
Profit for the year		903	88	991
Profit attributable to outside equity interests	(b)	(82)	(27)	(109)
Profit attributable to equity holders of the parent		**821**	**61**	**882**

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period (continued)

	Note	Year ended 30 June 2005		
		Previous GAAP $m	Transition impact $m	AIFRS $m
Restated Income Statement for the year ended 30 June 2005 (continued)				
Company				
Revenue				
Banking interest revenue		2,262	-	2,262
Banking interest expense		(1,559)	-	(1,559)
		703	-	703
Banking fee and commission revenue		216	-	216
Banking fee and commission expense		(82)	-	(82)
Other revenue		1,087	-	1,087
		1,924	-	1,924
Expenses				
Other expenses	(e), (i)	(853)	(3)	(856)
Non-banking interest expense		(15)	-	(15)
		(868)	(3)	(871)
Profit before impairment losses on loans, amortisation of goodwill and tax		1,056	(3)	1,053
Impairment losses on loans and advances		(21)	-	(21)
Profit before tax		1,035	(3)	1,032
Income tax expense	(d)	(142)	22	(120)
Profit for the year		**893**	**19**	**912**

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period (continued)

(a) Business combinations and goodwill

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS consolidated Balance Sheet. In applying the election available under AASB 1, the carrying amount of goodwill is adjusted on transition to AIFRS for contingent consideration. At 1 July 2004, no adjustment is required. At 30 June 2005, the adjustment results in an increase to intangible assets of $51 million (Company: $nil), an increase in due from subsidiaries of $nil (Company: $51 million) and an increase to provisions of $51 million (Company: $51 million).

Goodwill is now stated at the adjusted cost less any accumulated impairment losses. The carrying amount of goodwill will be subject to impairment testing at least annually. Any impairment loss will be recognised immediately in the consolidated Income Statement. There is no impairment adjustment on 1 July 2004.

Goodwill does not require an amortisation charge, and for AIFRS comparative disclosure purposes, the previous GAAP goodwill amortisation charge has been reversed. This results in the carrying amount of goodwill increasing by $61 million at 30 June 2005, and an increase in profit before tax of $61 million for the year ended 30 June 2005.

In addition, the amortisation of the notional goodwill previously included in share of net profits of joint ventures accounted for using the equity method will cease. The previous GAAP notional goodwill amortisation of $2 million for the year ended 30 June 2005 has been reversed, increasing the investment in associates and joint ventures and profit before tax for AIFRS comparative disclosure purposes.

(b) Consolidation of special purpose vehicles

The interpretation of the consolidation rules applicable to special purpose vehicles under AASB 127 *Consolidated and Separate Financial Statements* and UIG Interpretation 112 *Consolidation – Special Purpose Vehicles* differ under AIFRS. This results in the following changes for the Group:

Securitisation trusts

The Group securitises mortgage loans as part of its strategy to fund growth in Banking loans and receivables. Under previous GAAP, the Group was not considered to control the securitisation vehicles and the assets and liabilities of these vehicles were not recognised in the Balance Sheet. Under AIFRS, the Group is considered to control the securitisation vehicles, resulting in their consolidation. At 1 July 2004, this results in an increase to loans, advances and other receivables of $2,320 million, a decrease to other assets of $11 million, the recognition of securitised liabilities of $2,410 million, a decrease to payables and other liabilities of $101 million, with no change in retained profits.

At 30 June 2005, the adjustments result in an increase to loans, advances and other receivables of $3,724 million, a decrease to other assets of $10 million, the recognition of securitised liabilities of $3,906 million, a decrease to payables and other liabilities of $192 million, with no change in retained profits.

Whilst there is no impact on profit for AIFRS comparative purposes, the consolidation of the securitisation vehicles results in a reclassification of amounts in the Income Statement. For the year ended 30 June 2005, net banking interest revenue increases by $16 million, banking fee and commission revenue decreases by $14 million, and operating expenses increase by $2 million.

Managed investment schemes and treasury shares

Under previous GAAP, the Group controlled the managed investment schemes operated by its subsidiaries when the Group owned 75% or greater of the units in the managed schemes. Under AIFRS, the Group also needs to consider the role of the subsidiaries as the responsible entity of the managed investment schemes. Under AIFRS, the Group is considered to control an increased number of managed investment schemes operated by its subsidiaries.

Under AIFRS, the cost of any shares in the Company held by the consolidated managed investment schemes (known as treasury shares) are required to be eliminated against share capital, with unrealised gains or losses being eliminated against retained profits.

At 1 July 2004, the net impact of consolidating additional managed investment schemes and eliminating the related treasury shares is an increase to cash and cash equivalents of $86 million, an increase to investment securities of $391 million, an increase to other assets of $6 million, an increase to payables and other liabilities of $19 million, a decrease to share capital of $10 million, a decrease to reserves of $2 million, a decrease to retained profits of $2 million and an increase to outside equity interests of $478 million.

At 30 June 2005, the adjustments result in an increase to cash and cash equivalents of $12 million, an increase to investment securities of $88 million, a decrease to loans, advances and other receivables of $3 million, an increase to other assets of $1 million, an increase to payables and other liabilities of $7 million, a decrease to share capital of $11 million, a decrease to reserves of $5 million, a decrease to retained profits of $4 million and an increase to outside equity interests of $111 million.

For AIFRS comparative disclosure purposes for year ended 30 June 2005, other revenue increases by $24 million, profit attributable to outside equity interests increase by $27 million, resulting in a decrease to profit of $3 million.

Employee share plan

Under previous GAAP, the Group did not control the Executive Performance Share Plan ('EPSP') and the EPSP's assets and liabilities were not recognised in the consolidated Balance Sheet. Under AIFRS, the Group controls this plan resulting in the consolidation of the plan. In addition, the cost of the shares in the Company held by the EPSP (known as treasury shares) are required to be eliminated against share capital, with unrealised gains or losses being eliminated against retained profits.

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period (continued)

(b) Consolidation of special purpose vehicles (continued)

Employee share plan (continued)

At 1 July 2004, this results in an increase to investment securities by $2 million, a decrease to other assets of $10 million, an increase to payables and other liabilities of $2 million and a decrease to share capital of $10 million, with no change in retained profits.

At 30 June 2005, the adjustment results in an increase to investment securities by $2 million, a decrease to other assets of $17 million, an increase to payables and other liabilities of $1 million, a decrease to share capital of $17 million, and an increase in retained profits of $1 million.

(c) Excess of net market value of interests in life insurance subsidiaries over their recognised net assets ('EMVONA')

Under previous GAAP, AASB 1038 *Life Insurance Business* required a Life Insurer to recognise the excess of net market value of an interest in a subsidiary over the net assets of the subsidiary, as an asset in its consolidated balance sheet and movements in the asset in the consolidated Income Statement. Under AIFRS, revised AASB 1038 *Life Insurance Contracts* in conjunction with AASB 138 *Intangible Assets* does not allow the asset to be recognised in the consolidated Balance Sheet or the movement in the asset to be recognised in the consolidated Income Statement.

On transition to AIFRS, the EMVONA asset has been written-off resulting in a decrease to the EMVONA asset and retained profits of $15 million at 1 July 2004 and $18 million at 30 June 2005. The additional EMVONA value recognised under previous GAAP of $3 million for the year ended 30 June 2005 has been reversed resulting in a decrease in profit before tax for AIFRS comparative disclosure purposes.

(d) Income tax

Under AIFRS, AASB 112 *Income Taxes* uses a 'balance sheet approach' of calculating income tax balances rather than the 'income statement approach' applied under previous GAAP. The balance sheet approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base.

Impact from adopting AASB 112

The tax adjustments on 1 July 2004 and 30 June 2005 for the tax effect of items not previously required to be recognised comprise:

- A decrease to deferred tax assets of $nil (Company: $1 million decrease), an increase to deferred tax liabilities of $2 million (Company: $nil) and a decrease in retained profits of $2 million (Company: $1 million decrease) for the tax effect of differences between the tax and accounting carrying value on buildings and intangible assets; and
- An increase to deferred tax liabilities and a decrease to unvested policy owner benefits of $1 million (Company: $nil) due to the prohibition on discounting certain life insurance tax assets and liabilities.

In addition, at 1 July 2004, deferred tax liabilities increased and the asset revaluation reserve decreased by $1 million (Company: $nil) for the tax effect of the asset revaluation reserve not previously required to be recognised. At 30 June 2005, deferred tax liabilities increase and asset revaluation reserve decrease by $2 million (Company: $nil).

Impact from adopting other AIFRS standards

The impact of the change in basis and the transition adjustments required by the application of AIFRS standards other than AASB 112 on the deferred tax balances and the previously reported tax expense is:

- At 1 July 2004, deferred tax assets increase by $nil (Company: $2 million increase), deferred tax liabilities decrease by $19 million (Company: $nil) and retained profits increase by $19 million (Company: $2 million increase);
- At 30 June 2005, due from subsidiaries increases by $nil (Company: $2 million increase), deferred tax assets increase by $nil (Company: $1 million increase), deferred tax liabilities decrease by $22 million (Company: $nil) and retained profits increase by $22 million (Company: $3 million increase).

For AIFRS comparative purposes, the impact on the tax expense is a decrease of $3 million (Company: $1 million decrease) for the year ended 30 June 2005.

Impact from adopting UIG 1052

The Urgent Issues Group has released guidance regarding the recognition of tax amounts under the tax consolidation regime in the AIFRS framework. UIG 1052 *Tax Consolidations Accounting* requires wholly-owned subsidiaries in the tax-consolidated group to recognise their own tax balances directly, with the current tax liability or asset to be assumed by the head entity via an intercompany loan, equity contribution or distribution, depending on tax funding arrangements. Historically, the ultimate parent entity recognised all tax balances and charged each subsidiary an allocation of the current tax liability, based upon the subsidiary's contribution to Group profit, and charged the life insurance statutory funds their 'notional' tax expense for the period. These charges were recognised as an income tax expense in the subsidiary and an income tax expense recovery in the ultimate parent entity.

In transitioning to this interpretation, UIG 1052 requires that the entity adopt these accounting practices, as if they were in place from the time of the entity's entry into tax consolidation. Accordingly, tax balances have been restated in subsidiary financial statements, and any difference between the current tax liability (if calculated ignoring tax consolidation) and what was previously recharged has been accounted for in equity.

The impact of UIG 1052 for the Company is:

- At 1 July 2004, investment securities increase by $27 million, due from subsidiaries decreases by $40 million, deferred tax assets increase by $35 million and retained profits increase by $22 million.
- At 30 June 2005, investment securities increase by $27 million, due from subsidiaries decreases by $60 million, deferred tax assets increase by $76 million and retained profits increase by $43 million.

For AIFRS comparative purposes, the impact on the Company's tax expense is a decrease of $21 million for the year ended 30 June 2005.

There will be no impact on the Group's tax balances.

Notes to the Financial Statements

for the year ended 30 June 2006

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period (continued)

(e) Intangible assets

Reclassification of software

Under AIFRS, the Group's software assets are reclassified from property, plant and equipment to intangible assets. This reclassification adjustment results in a decrease in property, plant and equipment and an increase in intangible assets of $84 million at 1 July 2004 and $76 million at 30 June 2005.

Remeasurement of software

Under previous GAAP, the Group capitalised and amortised:

- the costs incurred in acquiring, installing, enhancing and developing application software for internal use; and
- certain product set-up costs

where the benefits were reasonably certain.

Under AIFRS, AASB 138 *Intangible Assets* introduces stricter criteria around the costs that can be capitalised and amortised. This results in a greater proportion of application software costs and product set-up costs being expensed as incurred. Under AIFRS, less costs will be capitalised and recognised in the Balance Sheet and there will be a reduction in amortisation expense in future years.

At 1 July 2004, the impact of the change in capitalisation and amortisation of software costs results in a decrease to intangible assets of $15 million, a decrease to other assets of $3 million (Company: $2 million decrease) and a decrease to retained profits of $18 million (Company: $2 million decrease). At 30 June 2005, this results in a decrease to due from subsidiaries of $nil (Company: $7 million decrease), a decrease to intangible assets of $21 million, a decrease to other assets of $3 million (Company: $3 million decrease) and a decrease to retained profits of $24 million (Company: $10 million decrease).

For AIFRS comparative disclosure purposes, operating expenses increase and profit before tax decreases by $6 million (Company: $7 million) for the year ended 30 June 2005.

Franchise systems

The Group has franchise systems that were classified as other assets under previous GAAP. Under AIFRS, franchise systems are reclassified as intangible assets. This results in an increase to intangible assets and a decrease to other assets of $11 million at 1 July 2004 and $10 million at 30 June 2005.

(f) Post-employment benefits

Under previous GAAP, the Group did not recognise an asset or a liability in its Balance Sheet for the net position of the defined benefit superannuation plan it sponsors. Under AIFRS, AASB 119 *Employee Benefits* requires the surplus or deficit of each plan to be recognised in the consolidated Balance Sheet, and permits three options for recognising actuarial gains and losses on an ongoing basis. The Group has elected to recognise actuarial gains and losses in full in the Income Statement.

On transition to AIFRS at 1 July 2004, the Group has recognised the defined benefit superannuation plan surplus of $2 million as an asset with a corresponding increase in retained profits. At 30 June 2005, the Group continues to recognise an asset of $2 million, with no significant impact on profit before tax.

(g) Property, plant and equipment

Under previous GAAP, the Group used the deemed cost basis to record property, plant and equipment. On transition to AIFRS, the Group elected to use the AASB 1 exemption that allows a previous revaluation to be the asset's deemed cost. As a result of selecting the cost basis under AASB 116 *Property, Plant and Equipment*, the asset revaluation reserve of $8 million (Company: $8 million) has been transferred to retained profits.

As set out in note (e) above, the Group's software assets have been reclassified from property, plant and equipment to intangible assets under AIFRS.

(h) Revenue recognition, deferral of fee income and acquisition expenses

Under AIFRS, AASB 118 *Revenue* requires that certain fee income and acquisition expenses that were previously recognised in the Income Statement are deferred and recognised in the Balance Sheet, and amortised to the Income Statement over the period of the service or contract term.

On transition to AIFRS at 1 July 2004, this adjustment results in an increase to other assets of $1 million (Company: $nil), an increase to payables and other liabilities of $5 million (Company: $5 million increase) and a decrease to retained profits of $4 million (Company: $5 million decrease). At 30 June 2005, this adjustment results in a decrease to other assets of $1 million, an increase to payables and other liabilities of $5 million (Company: $5 million increase) and a decrease to retained profits of $6 million (Company: $5 million decrease).

For AIFRS comparative purposes, operating expenses increase and profit before tax decreases by $2 million for the year ended 30 June 2005.

(i) Share based payments

Shares

Under previous GAAP, the Group recognised an expense for the shares issued under the EPSP. Shares in the Company are purchased by a trust when the shares are granted and held until they vest to the employee. The cost of the shares was amortised to the Income Statement over the vesting period.

Under AIFRS, AASB 2 *Share Based Payments* requires the Group to continue to recognise an expense for the shares issued under the EPSP. However, this expense will be determined based on the fair value of the equity instruments issued, which considers the impact of market related vesting conditions. The fair value of the equity instruments will be amortised to the Income Statement over the vesting period, adjusted to reflect actual and expected levels of the ultimate entitlement.

On transition to AIFRS at 1 July 2004, this adjustment results in an increase in investment securities of $nil (Company: $4 million increase), an increase in other assets of $3 million (Company: $3 million increase), an increase in share capital of $2 million (Company: $2 million increase), and an increase in retained profits of $1 million (Company: $5 million increase), representing the reversal of an expense recognised under previous GAAP.

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period (continued)

(i) Share based payments (continued)

Shares (continued)

At 30 June 2005, this adjustment results in an increase in investment securities of $nil (Company: $7 million increase), a decrease in due from subsidiaries of $nil (Company: $1 million decrease), an increase in other assets of $8 million (Company: $8 million increase), an increase in share capital of $5 million (Company: $5 million increase), and an increase in retained profits of $3 million (Company: $9 million increase).

For AIFRS comparative disclosure purposes, operating expenses decrease and profit before tax increases by $2 million (Company: $4 million) for the year ended 30 June 2005.

Options

Under previous GAAP, the Group did not recognise an expense for the options issued under the Executive Option Plan ('EOP'). As permitted by the election available under AASB 1, the Group has elected not to apply AASB 2 to equity instruments issued prior to 7 November 2002. The AASB 1 exemption applies to all options issued under the EOP.

(j) Securitisation transactions

The Group is a party to certain lease securitisation transactions in relation to investment properties that it owns. Under previous GAAP, the relevant assets and liabilities, and revenue and expense items were recognised on a net basis. Under AIFRS, AASB 140 *Investment Properties* requires that the fair value of an investment property is determined excluding the impacts of special terms or circumstances specific to any party. This requirement results in the Group recognising the relevant assets, liabilities, and revenue and expense items on a gross basis. The assets and liabilities are recognised at fair value.

At 1 July 2004, this adjustment results in an increase in cash and cash equivalents of $8 million, a decrease in loans, advances and other receivables of $3 million, an increase in investment properties of $56 million, and an increase in bonds, notes and long term borrowings of $61 million, with no change in retained profits.

At 30 June 2005, this adjustment results in an increase in cash and cash equivalents of $10 million, a decrease in loans, advances and other receivables of $3 million, an increase in investment properties of $61 million, a decrease in other assets of $2 million, an increase in bonds, notes and long term borrowings of $60 million, and an increase in retained profits of $6 million.

For AIFRS comparative purposes, General Insurance investment revenue – insurance provisions and profit before tax increases by $6 million for the year ended 30 June 2005.

(k) Balance Sheet reclassification

On transition to AIFRS, certain assets and liabilities have been reclassified to balance sheet categories that are different from previous GAAP. The significant reclassifications in addition to the adjustments above are as follows:

- Loans to a joint venture of $4 million at 1 July 2004 and $16 million at 30 June 2005 have been reclassified from loans, advances and other receivables to investments in associates and joint ventures; and
- Investment properties of $84 million at 1 July 2004 and $95 million at 30 June 2005 have been reclassified from investment securities to investment properties.
- Investments in associates of $83 million at 1 July 2004 and $83 million at 30 June 2005 have been reclassified from investment securities to investments in associates and joint ventures.

The Company adjustments above include changes to net receivables due from subsidiaries. To record gross receivables due from and gross payables due to subsidiaries, a reclassification of $16 million at 1 July 2004 and $49 million at 30 June 2005 have been included in the restated Balance Sheets of the Company.

The Company also reclassified $21 million at 1 July 2004 and $73 million at 30 June 2005 from deferred tax liabilities to deferred tax assets due to the Company being in a net deferred tax asset position.

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period (continued)

Equity reconciliation at 1 July 2004 and 30 June 2005

A summary of the effect of the above adjustments on equity is set out below.

	Note	1 July 2004 $m	30 June 2005 $m
Consolidated			
Business combinations and goodwill	(a)	-	63
Consolidation of special purpose vehicles	(b)	(24)	(36)
Excess of net market value of life insurance subsidiaries	(c)	(15)	(18)
Income tax	(d)	16	19
Intangible assets	(e)	(18)	(24)
Post-employment benefits	(f)	2	2
Revenue recognition, deferral of fee income and acquisition expenses	(h)	(4)	(6)
Share based payments	(i)	3	8
Securitisation transactions	(j)	1	7
Other		-	(1)
Total parent entity interest		(39)	14
Outside equity interests	(b)	478	111
Total equity		**439**	**125**
Company			
Income tax	(d)	23	45
Intangible assets	(e)	(2)	(10)
Revenue recognition, deferral of fee income and acquisition expenses	(h)	(5)	(5)
Share based payments	(i)	7	14
Other		(1)	(1)
Total equity		**22**	**43**

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part A: AIFRS adjustments in the comparative period (continued)

Impact of transition to AIFRS on Statement of Cash Flows

AASB 107 *Cash Flow Statements* requires that specific items disclosed as investing or financing cash flows under previous GAAP are now included in the determination of operating cash flows. Under AIFRS, cash balances increased due to the consolidation of special purpose vehicles and the recognition of securitisation transactions. In addition, AIFRS changes the reported categories of operating, investing or financing cash flows.

The impact of the increased cash balances and the reclassifications for the year ended 30 June 2005 are:

	Year ended 30 June 2005		
	Previous GAAP $m	Transition impact $m	AIFRS $m
Consolidated			
Cash flows from operating activities	1,590	(2,694)	(1,104)
Cash flows from investing activities	(5,148)	4,701	(447)
Cash flows from financing activities	3,821	(2,081)	1,740
	263	(74)	189
Cash and cash equivalents at the beginning of the period	802	-	802
Cash balances acquired during the period	-	94	94
Cash and cash equivalents at the end of the period	1,065	20	1,085
Company			
Cash flows from operating activities	1,057	(957)	100
Cash flows from investing activities	(3,729)	3,735	6
Cash flows from financing activities	2,909	(2,778)	131
	237	-	237
Cash and cash equivalents at the beginning of the period	416	-	416
Cash and cash equivalents at the end of the period	653	-	653

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part B: AIFRS impacts on 1 July 2005

The impacts of the significant changes in accounting policy from adopting AASB 132, AASB 139, AASB 4, AASB 1023 and AASB 1038 from 1 July 2005 are set out below. The restated consolidated Balance Sheets reflect all AIFRS adjustments, whereas the notes following only include the significant adjustments.

	Note	30 June 2005 AIFRS $m	Adjustments Reclassify $m	Adjustments Remeasure $m	1 July 2005 AIFRS $m
Restated Balance Sheet at 1 July 2005					
Consolidated					
Assets					
Cash and cash equivalents		1,084	-	-	1,084
Receivables due from other banks		67	-	-	67
Other financial assets					
Trading securities		3,396	-	-	3,396
Investment securities		9,958	-	-	9,958
Investments in associates and joint ventures		213	-	-	213
Loans, advances and other receivables	(v), (vi)	35,771	-	46	35,817
Bank acceptances of customers		74	-	-	74
Property, plant and equipment		105	-	-	105
Investment property		156	-	-	156
Intangible assets	(ii)	1,101	-	(3)	1,098
Other assets	(ii)-(v), (ix)	563	(8)	(51)	504
Total assets		**52,488**	**(8)**	**(8)**	**52,472**
Liabilities					
Deposits and short term borrowings	(iii)	27,157	-	4	27,161
Payables due to other banks		66	-	-	66
Bank acceptances		74	-	-	74
Payables and other liabilities	(iii)-(v), (ix)	1,044	51	120	1,215
Current tax liabilities		182	-	-	182
Provisions	(ix)	201	(51)	-	150
Deferred tax liabilities	(vii)	55	-	(36)	19
Outstanding claims, unearned premiums and unexpired risk liabilities	(ii)	5,538	-	14	5,552
Gross policy liabilities	(iv)	3,244	-	47	3,291
Unvested policy owner benefits		324	-	2	326
Outside beneficial interests	(i)	-	752	(2)	750
Securitisation liabilities	(iii), (ix)	3,906	(8)	(88)	3,810
Bonds, notes and long term borrowings		4,468	-	-	4,468
Subordinated notes	(iii)	968	-	(11)	957
Preference shares	(i)	-	250	-	250
Total liabilities		**47,227**	**994**	**50**	**48,271**
Net assets		**5,261**	**(1,002)**	**(58)**	**4,201**
Equity					
Share capital	(i)	3,018	(250)	6	2,774
Reserves	(iii), (vii)	12	-	(17)	(5)
Retained profits	(ii)-(vii)	1,484	(5)	(47)	1,432
Total equity attributable to equity holders of the parent		**4,514**	**(255)**	**(58)**	**4,201**
Outside equity interests	(i)	747	(747)	-	-
Total equity		**5,261**	**(1,002)**	**(58)**	**4,201**

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part B: AIFRS impacts on 1 July 2005 (continued)

	Note	30 June 2005 AIFRS $m	Adjustments Reclassify $m	Adjustments Remeasure $m	1 July 2005 AIFRS $m
Restated Balance Sheet at 1 July 2005 (continued)					
Company					
Assets					
Cash and cash equivalents		652	-	-	652
Receivables due from other banks		67	-	-	67
Other financial assets					
Trading securities		3,396	-	-	3,396
Investment securities		2,052	-	-	2,052
Loans, advances and other receivables	(iv), (vi), (viii)	29,446	-	3,769	33,215
Bank acceptances of customers		74	-	-	74
Due from subsidiaries		2,082			2,082
Property, plant and equipment		33	-	-	33
Deferred tax asset	(vii)	2	-	18	20
Other assets	(iii), (iv)	144	-	(37)	107
Total assets		**37,948**	**-**	**3,750**	**41,698**
Liabilities					
Deposits and short term borrowings	(iii)	27,250	-	4	27,254
Payables due to other banks		66	-	-	66
Bank acceptances		74	-	-	74
Payables and other liabilities	(iii), (v), (viii)	906	51	19	976
Current tax liabilities		182	-	-	182
Provisions	(ix)	66	(51)	-	15
Due to subsidiaries	(viii)	306	-	3,725	4,031
Deferred tax liabilities		-	-	-	-
Bonds, notes and long term borrowings		4,408	-	-	4,408
Subordinated notes	(iii)	770	-	(13)	757
Preference shares	(i)	-	250	-	250
Total liabilities		**34,028**	**250**	**3,735**	**38,013**
Net assets		**3,920**	**(250)**	**15**	**3,685**
Equity					
Share capital	(i)	3,045	(250)	6	2,801
Reserves	(iii), (vii)	13	-	(12)	1
Retained profits	(i), (iii), (v)-(vii)	862	-	21	883
Total equity		**3,920**	**(250)**	**15**	**3,685**

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part B: AIFRS impacts on 1 July 2005 (continued)

(i) Debt/equity classification

The Group's preference shares, which were classified as equity under previous GAAP, have been reclassified as a financial liability and dividends paid on these preference shares are treated as interest expense rather than as dividends in accordance with AASB 132. The carrying amount of preference shares at 1 July 2005 is $250 million (Company: $250 million), and distributions are $16 million (Company: $16 million) for the year ended 30 June 2006. Transaction costs from issuing the preference shares of $6 million (Company: $6 million) were transferred to retained profits on 1 July 2005.

The Group consolidates a number of the managed investment schemes operated by its subsidiaries as set out in Part A (b). Under AIFRS, the managed investment schemes' unit holder funds, which are classified as equity under previous GAAP, have been reclassified as a financial liability in accordance with AASB 132. Consequently, on 1 July 2005, outside beneficial interests increase by $752 million, retained profits decreased by $5 million and outside equity interests decrease by $747 million.

(ii) General Insurance business

Under previous GAAP, AASB 1023 *Financial Reporting of General Insurance Activities* deals with the accounting for a general insurance business. Under AIFRS, products that meet the definition of a general insurance contract under revised AASB 1023 *General Insurance Contracts* will continue to use current accounting treatments subject to a revised Liability Adequacy Test. All the Group's general insurance products meet the definition of a general insurance contract.

Under previous GAAP, the Liability Adequacy Test was performed at the reporting entity level. Under AIFRS, the Liability Adequacy Test is applied to portfolios or products that are subject to broadly similar risks and are managed together as a single portfolio. In conducting this test, the expected cash flows relating to future claims include a risk margin to reflect the inherent uncertainty of the estimation process. The estimate of future claims including the risk margin represents an estimated 75% probability that the estimate is adequate. As a result of the revised Liability Adequacy Test, intangible assets decrease by $3 million, other assets decrease by $23 million, outstanding claims, unearned premiums and unexpired risk liabilities increase by $14 million and retained profits decrease by $40 million on 1 July 2005.

(iii) Hedge accounting

Under AIFRS all derivative contracts, whether used as hedging instruments or otherwise, are recorded at fair value on the Group's Balance Sheet, with a corresponding entry to the Income Statement or an equity reserve.

AIFRS introduces new rules in relation to hedge accounting, and all hedging instruments will be subject to rigorous effectiveness testing. Where a hedging instrument fails the effectiveness tests, movements in fair value are recorded in the Income Statement, which may result in volatility.

Where cash flow hedges are used and the hedge effectiveness tests are met, the movement in fair value of the derivative instrument is recorded in an equity reserve to the extent this amount is equal to or less than the movement in the fair value of the hedged item. Where fair value hedges are used and the hedge effectiveness tests are met, the movement in fair value of the derivative instrument is recorded in the Income Statement. To the extent the fair value hedges are effective in managing the underlying risk, this movement will offset the movement in fair value of the underlying hedged item which will also be recorded in the Income Statement.

The Group has adopted a hybrid approach to address the potential earnings volatility that may arise from measuring all derivative instruments at fair value. The Group uses cash flow hedging and fair value hedging and measures some derivative instruments and the underlying asset or liability at fair value through profit or loss. As a result of applying these changes on 1 July 2005, other assets decrease by $6 million (Company: $6 million decrease), short term borrowings increase by $4 million (Company: $4 million increase), payables and other liabilities increase by $20 million (Company: $21 million increase), subordinated debt decreases by $11 million (Company: $13 million decrease), equity reserves decrease by $17 million (Company: $17 million decrease) and retained profits decrease by $2 million (Company: $1 million decrease).

As a result of applying these changes to the securitisation trusts, payables and other liabilities increase by $93 million, securitisation liabilities decrease by $88 million and equity reserves decrease by $5 million.

(iv) Life Insurance business

Under previous GAAP, AASB 1038 dealt with the accounting for all life insurance business. Under AIFRS, products are designated as either Life Insurance Contracts or Life Investment Contracts. The Group has life insurance products that are designated as insurance and investment contracts.

Products that meet the definition of a Life Insurance Contract continue to use the Margin on Services valuation for policy liabilities under revised AASB 1038. Products that meet the definition of a Life Investment Contract have two components, a financial instrument element and a management services element. The financial instrument component is recognised as a financial liability under AIFRS and measured at fair value. The measurement of the management service component determines the recognition of revenue under AIFRS, with certain acquisition costs and related revenue deferred and recognised as an asset and/or liability in the balance sheet. The AIFRS requirements result in changes to the timing of profit recognition for Life Investment Contract products.

50. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

Part B: AIFRS impacts on 1 July 2005 (continued)

(iv) Life Insurance business (continued)

The AIFRS rules in relation to the deferral of acquisition costs on investment business are more stringent than under previous GAAP. As a result, some acquisition costs deferred under previous GAAP have been written-off on transition to AIFRS, and the subsequent recognition of profits on new business is delayed compared to the timing of profit recognition under previous GAAP.

The changes to accounting for Life Insurance business on 1 July 2005 result in an increase to other assets of $10 million, an increase in payables and other liabilities of $9 million, an increase in life insurance gross policy liabilities of $46 million and a decrease in retained profits of $45 million.

(v) Loan establishment fee income and establishment expenses

Under AIFRS, AASB 139 introduces stringent rules to account for loan establishment fee income and loan acquisition expenses. These income and expense items are deferred and recognised as an adjustment to the yield on the loan and disclosed as interest revenue.

On 1 July 2005, certain loan establishment fees and acquisition expenses that were previously recognised in the Income Statement have been recognised in the Balance Sheet, with a corresponding adjustment to retained profits. This results in an increase to loans, advances and other receivables of $9 million (Company: $9 million increase), a decrease to other assets of $32 million (Company: $32 million decrease), a decrease to payables and other liabilities of $1 million (Company: $1 million decrease) and a decrease in retained profits of $22 million (Company: $22 million decrease).

(vi) Loan impairment provisions

Under AIFRS, AASB 139 requires the Group to apply an incurred loss approach for loan provisioning and follow specific rules on the measurement of incurred losses.

Specific provisions are raised for losses that have already been incurred on loans that are known to be impaired. The estimated losses on these impaired loans are based on expected future cash flows discounted to their present value and as this discount unwinds, interest is recognised in the Income Statement.
At 1 July 2005, the adjustments for specific provisions result in a decrease to loans, advances and other receivables and a decrease to retained profits of $4 million (Company: $4 million decrease).

Loans not found to be individually impaired are collectively assessed for impairment in pools of loans with similar credit risk characteristics. The size of the provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

At 1 July 2005, the adjustment to reverse the previous GAAP general provision and recognise the AIFRS collective provision results in an increase to loans, advances and other receivables and retained profits of $40 million (Company: $39 million increase).

(vii) Income tax

The impact of the change in basis of calculating income tax balances under AASB 112 and the transition adjustments required by the application of the AIFRS standards adopted from 1 July 2005 is to increase deferred tax assets by $nil (Company: $18 million increase), decrease deferred tax liabilities by $36 million (Company: $nil), increase equity reserves by $7 million (Company: $5 million increase) and increase retained profits by $29 million (Company: $13 million increase).

(viii) Securitisation trusts

Under AIFRS, the original sale of the mortgages from the Company to the Trusts fails the de-recognition criteria set out in AASB 139. This requires the Company to continue to reflect the securitised loans in their entirety and also recognises a financial liability to the Trusts.

On 1 July 2005, the re-recognition of the original sale of mortgages results in an increase to both loans, advances and other receivables and due to subsidiaries of $3,725 million in the Company.

(ix) Balance Sheet reclassification

On 1 July 2005, the application of AASB 132 requires certain assets and liabilities to be reclassified to balance sheet categories that are different from previous GAAP. The significant reclassifications in addition to the adjustments above is to decrease other assets by $8 million (Company: $nil), increase payables and other liabilities by $51 million (Company: $51 million increase), decrease provisions by $51 million (Company: $51 million decrease) and decrease securitisation liabilities by $8 million (Company: $nil).

Directors' Declaration

1 In the opinion of the directors of Suncorp-Metway Ltd ('the Company'):

   (a) the financial statements and notes including the remuneration disclosures that are contained in section 5 (excluding sections 5.5.2 and 5.5.3) of the Remuneration report in the Directors' report, set out on pages 58 to 199, are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) the remuneration disclosures that are contained in section 5 (excluding sections 5.5.2 and 5.5.3) of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures* and *Corporations Regulations 2001*.

   (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 by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2006 pursuant to Section 295A of the *Corporations Act 2001*.

Dated at Brisbane this 1st September 2006.

Signed in accordance with a resolution of the directors:

John D Story
Chairman

John F Mulcahy
Managing Director

Independent Audit Report

to the members of Suncorp-Metway Ltd

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the Balance Sheets, Income Statements, Statements of Recognised Income and Expense, Statements of Cash Flows, accompanying notes 1 to 50 to the financial statements and the Directors' declaration for both Suncorp-Metway Ltd ('the Company') and Suncorp-Metway Ltd and its subsidiaries ('the consolidated entity'), for the financial year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during that financial year.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives ('remuneration disclosures'), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading 'Remuneration report' in section 5 (excluding sections 5.5.2 and 5.5.3) of the Directors' report and not in the financial report.

The Remuneration report also contains information in sections 5.5.2 and 5.5.3 not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report and the remuneration disclosures in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*. The directors are also responsible for the remuneration disclosures contained in the Directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and that the remuneration disclosures comply with Australian Accounting Standard AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

1. In our opinion, the financial report of Suncorp-Metway Ltd is in accordance with:
   (a) the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   (b) other mandatory professional reporting requirements in Australia.
2. The remuneration disclosures that are contained in section 5 (excluding sections 5.5.2 and 5.5.3) of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

KPMG

Brian Greig
Partner

Brisbane
1 September 2006

Metropolitan Permanent Building Society Trust

Financial statements for the year ended 30 June 2006

	2006 $	2005 $
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	-
Net assets	-	1,000
Equity		
Initial sum	-	1,000

Notes to the financial statements for the year ended 30 June 2006

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 discussed below.

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 inancial liabilities

Other financial liabilities are designated at fair value upon initial recognition. The fair value of the non-participating shares is assumed to approximate the 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 2006 is $1,000 (2005: $1,000). These shares are not readily traded on an organised market in a standardised form.

4. Remuneration of auditors

	2006 $	2005 $
Audit services		
Auditors of the Trust – KPMG		
Audit of the financial report	300	256

Fees for services rendered by the Trust's auditor in relation to the statutory audit are borne by Suncorp-Metway Ltd.

5. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (AIFRS)

The Trust has prepared these financial statements in accordance with AIFRS. The Trust transitioned to AIFRS on 1 July 2004.

As permitted by AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards, the Trust has elected not to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* to the comparative information, and therefore these standards apply from 1 July 2005.

In accordance with AASB 139 the Trust's investments have been classified as available-for-sale financial assets. The investments are recorded at fair value with movements in the fair value at each reporting period being recorded through equity. The fair value of the investments at 1 July 2005 was $1,000. Accordingly there has been no change to the recorded value of the Trust's assets or equity when applying AIFRS for the first time at 1 July 2005.

Under previous GAAP, the initial contribution was classified as equity. Under AASB 132, this item is classified as a liability. On 1 July 2005, this change in classification resulted in an increase in other financial liabilities of $1,000 and a decrease in equity of $1,000.

Trustee's Report
Metropolitan Permanent Building Society Trust

As Trustee of the above Trust we report for the year ended 30 June 2006 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
1 September 2006

Independent Audit Report to the Beneficiaries

of Metropolitan Permanent Building Society Trust

Scope

The financial report and Trustee's responsibility

The financial report comprises the Balance Sheet, accompanying notes 1 to 5 and the Trustee's report for Metropolitan Permanent Building Society Trust (the 'Trust') for the year ended 30 June 2006.

The Trustee is responsible for the preparation and true and fair presentation of the financial report. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Trustee is also responsible for preparing the relevant information regarding adjustments required under Australian Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards.*

Audit approach

We conducted an independent audit in order to express an opinion to the beneficiaries of the Trust. Our audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with, the Trust Deed, the *Corporation Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Trust's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Trustee.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the financial report of Metropolitan Permanent Building Society Trust:

- presents fairly in accordance with the provisions of the Trust Deed dated 23 March 1988, the *Corporations Act 2001*, applicable Australian Accounting Standards and other mandatory professional reporting requirements in Australia, the Trust's financial position as at 30 June 2006 and its performance for the year ended on that date; and
- is properly drawn up in accordance with the provisions of the Trust Deed dated 23 March 1988.

KPMG
KPMG

Brian Greig
Partner

Brisbane
1 September 2006

Shareholder Information

at 18 August 2006

Major shareholders

Ordinary shares

	Number of shares	%
National Nominees Limited	45,987,900	8.26
JP Morgan Nominees Australia Limited	45,332,267	8.14
Westpac Custodian Nominees Limited	29,143,429	5.23
RBC Dexia Investor Services Australia Nominees Pty Limited (PIPOOLED A/C)	16,608,982	2.98
UBS Nominees Pty Ltd	12,900,000	2.32
Citicorp Nominees Pty Limited	11,146,901	2.00
Cogent Nominees Pty Limited	10,738,178	1.93
ANZ Nominees Limited (Cash Income A/C)	6,601,231	1.19
AMP Life Limited	5,874,271	1.06
Queensland Investment Corporation	5,754,355	1.03
Australian Foundation Investment Company Limited	2,356,462	0.42
HSBC Custody Nominees (Australia) Limited	2,338,588	0.42
RBC Dexia Investor Services Australia Nominees Pty Limited (PIIC A/C)	2,222,704	0.40
SME Staff Share Plan Pty Ltd	1,995,017	0.36
Milton Corporation Ltd	1,910,198	0.34
Citicorp Nominees Pty Limited (CFS WSLE Geared Shr Fnd A/C)	1,878,135	0.34
Questor Financial Services Limited (TPS RF A/C)	1,861,694	0.33
UBS Wealth Management Australia Nominees Pty Ltd	1,845,868	0.33
Australian Reward Investment Alliance	1,554,542	0.28
Clem Jones Pty Ltd	1,505,000	0.27
	209,555,722	**37.64**

Reset preference shares

	Number of shares	%
Citicorp Nominees Pty Limited	105,000	7.29
Westpac Custodian Nominees Limited	75,000	5.21
Citicorp Nominees Pty Limited (CMIL Cwth Income Fund A/C)	60,000	4.16
Eastcote Pty Ltd (Van Lieshout F/T A/C)	50,000	3.47
The Australian National University	50,000	3.47
UBS Wealth Management Australia Nominees Pty Ltd	42,819	2.97
Australian Industrial Sands Pty Ltd	36,000	2.50
Argo Investments Limited	32,000	2.22
ANZ Nominees Limited (Cash Income A/C)	25,239	1.75
Clycut Pty Ltd	19,330	1.34
National Nominees Limited	12,500	0.87
ANZ Executors & Trustee Company Limited (Queensland Common Fund A/C)	11,164	0.77
Equity Trustees Limited (The Ind Retirement Fund A/C)	10,429	0.72
Perri Cutten Superannuation Nominees Pty Ltd (Perri Cutten Australia Pty Ltd Exec Benefit Plan A/C)	9,000	0.62
Networth Investments Limited (Wrap Services A/C)	7,935	0.55
Equity Trustees Limited (Garnet Allocated Pension)	7,891	0.55
Geoffrey Gardiner Dairy Foundation Ltd	6,773	0.47
JP Morgan Nominees Australia Limited	6,636	0.46
Australian Executor Trustees Limited (No 1 Account)	6,401	0.44
Mr Vishwanath Apte & Mrs Pushpa Apte (Apte Family P/Fund No 1 A/C)	6,000	0.42
	580,117	**40.25**

Distribution of shareholdings

Fully paid ordinary shares at 18 August 2006

Range	Number of holders	% of holders	Number of shares	% of shares
1-1,000 shares	115,904	64.76	57,911,376	10.40
1,001-5,000 shares	51,330	28.68	110,805,575	19.90
5,001-10,000 shares	7,396	4.13	51,709,436	9.30
10,001-100,000 shares	4,185	2.34	86,019,084	15.45
100,001 shares and over	165	0.09	250,261,419	44.95
	178,980	**100.00**	**556,706,890**	**100.00**

Fully paid ordinary shares at 18 August 2006

Location	Number of holders	% of holders	Number of shares	% of shares
Australia				
Queensland	99,943	55.84	194,633,835	34.96
New South Wales	34,777	19.43	210,227,065	37.76
Victoria	27,988	15.64	123,050,527	22.11
South Australia	5,174	2.90	11,481,928	2.06
Western Australia	5,277	2.95	7,842,993	1.41
Australian Capital Territory	2,796	1.56	4,451,931	0.80
Tasmania	1,635	0.91	2,471,129	0.44
Northern Territory	358	0.20	414,269	0.07
New Zealand	351	0.20	949,328	0.17
Hong Kong	76	0.04	169,085	0.03
United Kingdom	170	0.09	203,755	0.04
United States	110	0.06	208,937	0.04
Other overseas	325	0.18	602,108	0.11
	178,980	**100.00**	**556,706,890**	**100.00**

Fully paid reset preference shares at 18 August 2006

Range	Number of holders	% of holders	Number of shares	% of shares
1-1,000 shares	1,581	90.91	514,892	35.74
1,001-5,000 shares	130	7.48	299,862	20.81
5,001-10,000 shares	15	0.86	96,393	6.69
10,001-100,000 shares	12	0.69	424,481	29.47
100,001 shares and over	1	0.06	105,000	7.29
	1,739	**100.00**	**1,440,628**	**100.00**

Pursuant to the reset terms of the Instrument, approximately $106 million of securities will be exchanged for ordinary shares on 14 September 2006.

Suncorp major ASX announcements	
Annual results - announced record net profit of $821 million (under previous GAAP) for 2005 and increased dividend	26 August 2005
3.4 million shares issued to AMP Life Ltd in accordance with the terms of the acquisition of AMP general insurance business in September 2001	5 September 2005
New Director appointed - Dr Switkowski	19 September 2005
Annual and Concise Reports for 2005 issued to shareholders	23 September 2005
Annual General Meeting 2005 and Annual General Meeting results	26 October 2005
Half-Year results - announced net profit of $454 million and increased dividend	24 February 2006
Amendment to Dividend Reinvestment Plan - all dividend entitlements to be rounded down to the next whole share, the remainder dividend to be carried forward and added to the next dividend, as from final dividend 2006	24 February 2006
Impacts of Cyclone Larry	7 April 2006
UBS Investment Conference (New York) - presentation by Chief Financial Officer	17 May 2006

Substantial shareholders

At 18 August 2006, the following entity was contained in the register of substantial shareholdings, based on Substantial Holding Notices received:

	Number of Shares
Perpetual Limited	28,379,583

Voting rights of shareholders

(i) Ordinary shares

The fully paid ordinary shareholders are entitled to vote at any meeting of the members of the Company and their voting rights are on:

- Show of hands – one vote per shareholder.
- Poll – one vote per fully paid ordinary share.

(ii) Reset preference shares

Reset preference shareholders 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 reset preference share. The limited circumstances are set out in the Information Memorandum dated 16 August 2001.

Holders of non-marketable parcels

At 18 August 2006 the number of shareholders with less than a marketable parcel for fully paid ordinary shares (1-25 shares) was 2,630 (0.01% of shareholders) representing 32,698 shares.

Dividend History
(since Suncorp/Metway/QIDC merger 1 December 1996)

	Interim	Final	Special Dividend
1997	18c	22c	
1998	22c	22c	
1999	22c	22c	
2000	22c	24c	
2001	24c	28c	
2002	25c	29c	
2003	26c	30c	
2004	30c	40c	
2005	42c	45c	75c
2006	47c	50c	

*all dividends fully franked

Annual General Meeting

Wednesday, 25 October 2006, 2.30pm
Plaza Ballroom, 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
Facsimile: (02) 9287 0303
Email: suncorp@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

When seeking information shareholders must provide their Security Reference Number (SRN) or their Holder Identification Number (HIN). These are recorded on their shareholder statements or dividend advices.

Change of address

Shareholders who are issuer sponsored must advise the share registry of a change of address in writing, quoting their Security Reference Number (SRN), previous address and new address. Change of address forms can be obtained from 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 website or by contacting the share registry.

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. They can also choose to take their dividends in cash.

Removal from Annual Report mailing list

Shareholders no longer wishing to receive a Concise Report or a full Annual Report should advise the share registry in writing, by fax, telephone or email, quoting their SRN/HIN, or 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

Ordinary shares (SUN)

2006
Final dividend

Ex dividend date[2]	6	September
Record date	12	September
Dividend payment	2	October

2007
Interim dividend

Ex dividend date[2]	1	March
Record date	7	March
Dividend payment	2	April

Final dividend

Ex dividend date[2]	30	August
Record date	5	September
Dividend payment	1	October

Floating Rate Capital Notes (SUNHB)

2006

Ex interest date[2]	9	November
Record date	15	November
Interest payment	30	November

2007

Ex interest date[2]	9	February
Record date	15	February
Interest payment	2	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	30	August

Reset preference shares (SUNPA)

2007

Ex dividend date[2]	1	March
Record date	7	March
Dividend payment	14	March
Ex dividend date[2]	30	August
Record date	5	September
Dividend payment	14	September

Results announcements

2007

Half-Year Results and interim dividend announcement	26	February
Annual Results and final dividend announcement	27	August
Annual General Meeting	31	October

Notes:
(1) Dates may be subject to change
(2) Subject to ASX confirmation

Glossary

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. APRA is responsible for ensuring that policy holders, depositors and superannuation fund members are protected by, for example, ensuring that companies have enough capital to be able to meet their ongoing business needs, including reserving to pay claims.
Basic shares	Ordinary fully paid shares on issue.
Capital adequacy ratio	Capital base dividend by total assessed risk, as defined by APRA.
Diluted shares	Comprises ordinary shares, partly paid shares non-participating shares and outstanding options. Preference shares are not dilutive for the purpose of the earnings per share ratios as they cannot convert to ordinary shares until September 2006 and their dividends exceed the basic earnings per share. Weighted average shares are calculated in accordance with accounting standard AASB 133 *Earnings per share* and excludes treasury shares and options where the exercise price exceeds the market price.
Earnings per share	Basic earnings per share is calculated by dividing the profit of the Company for the financial year less dividends on preference shares classified as equity by the weighted average number of ordinary shares of the Company outstanding during the financial year. Diluted earnings per share is based on weighted average diluted shares. Both basic and diluted weighted average number of ordinary shares are adjusted for treasury shares. Calculated in accordance with accounting standard AASB 133 *Earnings per share*.
Group efficiency ratio	Operating expenses as a percentage of total operating income excluding investment income on Shareholder and Statutory Funds (as per exclusions outlined at Underlying Profit definition), one-off items and life insurance policy owner interests.
Insurance trading ratio	The insurance trading result expressed as a percentage of net earned premium.
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 and are generally based around property. For long tail insurance products, claims may not even be reported within 12 months, and settlement can take many years, and are generally based around injury compensation (eg medical, legal and loss of income) or other risks such as professional indemnity.
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.

ITEM	DEFINITION
Net tangible asset backing – basic	Shareholders' equity attributable to members of the Company less preference shares (when classified as equity) and intangibles divided by ordinary shares at the end of the period adjusted for treasury shares. In determining the number of ordinary shares at the end of the period, partly paid shares are taken into account by assuming that the unpaid amount is paid.
Outstanding claims	All unpaid claims and related claims handling expense relating to claims incurred prior to the reporting date.
Payout ratio – basic	Total after tax dividends and distributions on ordinary and preference shares which relate to the financial year divided by operating profit after tax adjusted for after-tax interest on preference shares (when classified as liability). Diluted shares are adjusted for treasury shares.
Return on average risk weighted assets	Banking operating profit after tax (based on assumed tax rate of 30%) divided by average risk weighted assets. Averages are based on beginning and end of period balances.
Return on average shareholders' equity – basic	Operating profit after tax less preference shares (when classified as equity) dividends divided by adjusted average ordinary shareholders' equity. The ordinary shareholders' equity excludes preference shares (when classified as equity). Averages are based on beginning and end of period balances.
Return on average total assets	Operating profit after tax divided by average total assets excluding Life Insurance policy owners' interests. Averages are based on beginning and end of period balances.
Risk weighted assets	Total of the carrying value of each asset class multiplied by their assigned risk weighting, as defined by APRA.
Underlying profit	Operating profit before tax, investment income on shareholder funds (General Insurance, General Insurance share of joint ventures and Wealth Management), investment income on capital and retained profits in Wealth Management and one-off items.

Index

Annual General Meeting 208
ASX releases 207
Auditors
- Lead Independence Statement 53, 54

Balanced Scorecard 39
Board
- Appraisal 35
- Charter 34
- Education 36
- Directors profiles 30, 31
- Committees of
  - Audit 36
  - Risk 37
  - Nomination and Remuneration 37
- Director Independence 34
- Meetings 33
- Role of

Code of Conduct 38
Corporate Governance 33
Corporate Planning/Strategy 12
Capital Management 8, 14
Dividends
- Current 3, 8
- History 207

Economic Outlook 9,14,19
Employee Development and Training 13, 17, 19, 22, 23, 25, 26
Environment 13, 19, 51
Financial Sector Legislation/Standards 8
Health and Safety 27
Information Technology 8, 27
Investment Management 24, 25
Leadership Development 13, 27
Management and Accountability 17, 26
Organisational Structure
- Service and Product Delivery Diagram 5
- Management Structure Diagram 13

Regulatory Changes 8
Remuneration 38
Risk Management 37
Share Registry 208
Sponsorships 13, 28, 29
Website 213

Tables and Graphs

Operating Profit after Tax 2
Underlying Profit 2
Dividends (Interim and Final) 2
Cash Earnings Per Share (Diluted) 2
Profit Overview 7
10 Year Annualised TSR 9
Banking Profit 11
General Insurance Profit 11
Wealth Management Profit 12
Retail Banking Assets by State 17
Business Banking by Portfolio 19
Business Banking by State 19
Gross Written Premium by Product 21
Gross Written Premium by State 21
Investment Performance 24
Funds Under Management 25
Board Attendance 33
Directors' Term in Office 35
EPSP Three-Year Vesting Entitlements 41
LTI Performance 41
Executive Remuneration 44
Executive Share Holding 45
Executive Options 46
Executive Compensation 47
Directors' Fees 47
Directors' Remuneration 49
Shareholder Returns Over Five Years 50
Directors' Interests 51
Auditor Payments 52
ASX Releases 207
Dividends History 207
Credit Ratings 213

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Facsimile: (07) 3836 1190
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Email: direct@suncorp.com.au

Suncorp

General enquiries	13 11 55
Quickcall phone banking	13 11 25
Insurance sales and enquiries	13 11 55
Insurance claims	13 25 24
Loan hotline	13 11 55
Lost or stolen cards and passbooks	1800 775 020
Life and risk insurance enquiries	13 11 55
Financial planning and superannuation enquiries	13 11 55
Investment Funds enquiries centre	1800 067 732
Business banking	1800 651 125
Small Business banking	1800 651 125
Share Trade	1300 135 190
New sales enquiries/new customers for Margin Lending	1800 805 972
Existing customer enquiries for Margin Lending	1800 805 972

Credit Ratings	Short term	Long term	Insurer financial strength General Insurance	Insurer financial strength Life & Super
Standard & Poor's	A-1	A	A	A
Moody's - Bank deposits	P-1	A2	n/a	n/a
- Senior debt	P-1	A2	n/a	n/a
Fitch Ratings	F1	A	A+	A

Annual Report

Copies of both the 2006 Concise Report and the full Annual Report (which includes the Consolidated Financial Statements) can be obtained from Suncorp Investor Relations (07) 3835 5797 or on the Suncorp website: www.suncorp.com.au

Information about the Group is also available on the website and includes annual results, half year results and profit announcements. The Group's announcements to the Australian Stock Exchange can also be accessed via the Suncorp website.

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General enquiries	13 10 10
Personal and Business Insurance	13 10 10
Personal Insurance claims	13 14 46
Workers' Compensation NSW policies and claims	13 10 10

Internet Sites

http://www.suncorp.com.au

http://www.gio.com.au

Suncorp's website, http://www.suncorp.com.au provides information on banking, insurance and investment products and services, sponsorships, financial results, company and shareholder information. Applications can be made online for a credit card, home or investment property loan, small business loan, or personal finance loan. Applications for transaction accounts may be made through internet banking. Customers can also obtain a quote and purchase home or car insurance.

The site offers Internet banking, Share Trade to buy and sell shares, the ability to open and manage a margin lending facility and managed superannuation and wrap accounts.

GIO's website, http://www.gio.com.au provides customers with information about all our personal and commercial insurance products, details on how to obtain quotes for personal and commercial insurance, online quoting for CTP/green slips, home, contents and motor insurance, the ability to make payments and submit home or motor insurance claims. There are also direct links to Suncorp.

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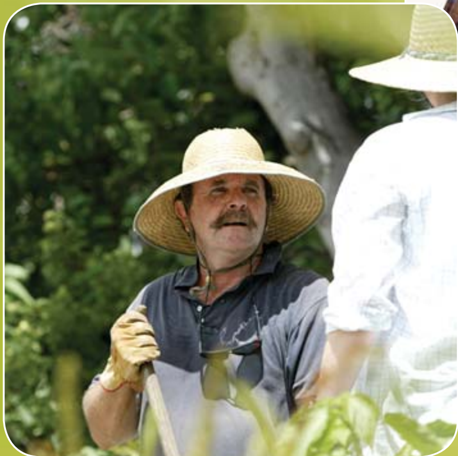
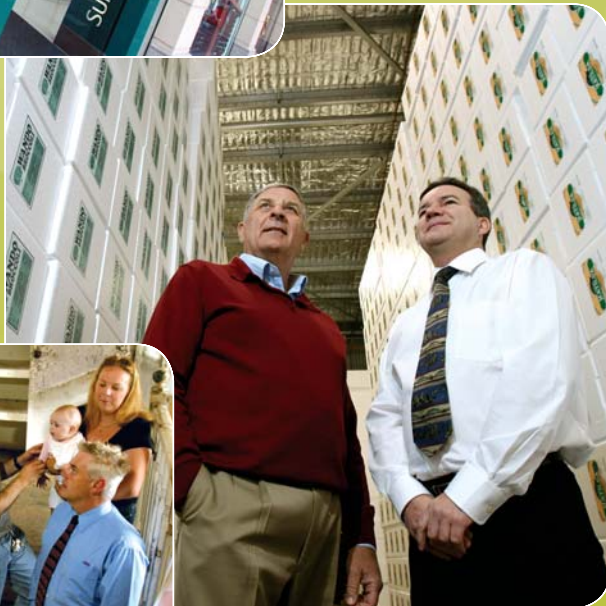
RETAIL BANKING



WEALTH MANAGEMENT



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