SUNCORP

# Concise Report 2006

Suncorp-Metway Ltd
ABN 66 010 831 722

# Contents



**Concise Report 2006**

The concise financial report incorporating the financial statements and other specific disclosures required by Accounting Standard AASB 1039 Concise Financial Reports is an extract of, and has been derived from Suncorp-Metway Ltd ('the Company') and its controlled entities' ('the Group') consolidated financial report for the financial year. Other information included in the concise financial report is consistent with the Group's full consolidated financial report.

The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full consolidated financial report.

A copy of the Group's Annual Report 2006, including the consolidated financial report and independent audit report, is available to all shareholders, and will be sent to shareholders without charge upon request.

# 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

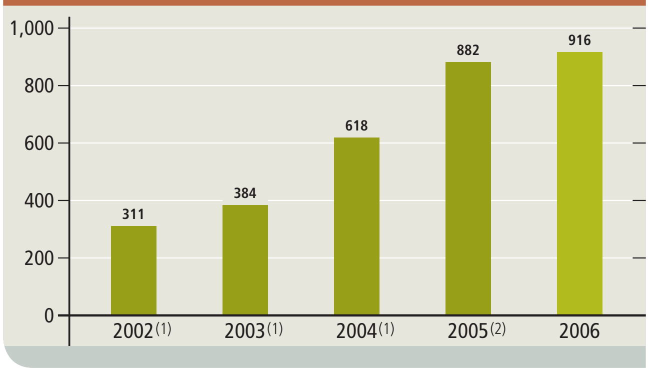
**Maintaining a competitively advantaged cost position by:**

- 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

**Operating profit after tax**

$ million

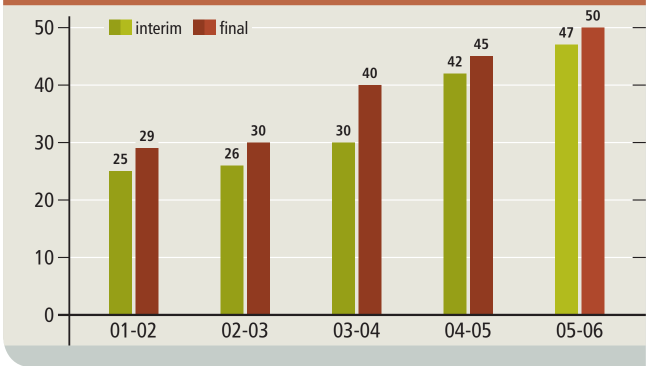



**Underlying profit** (Excluding Life Insurance policy owners' interests)

$ million

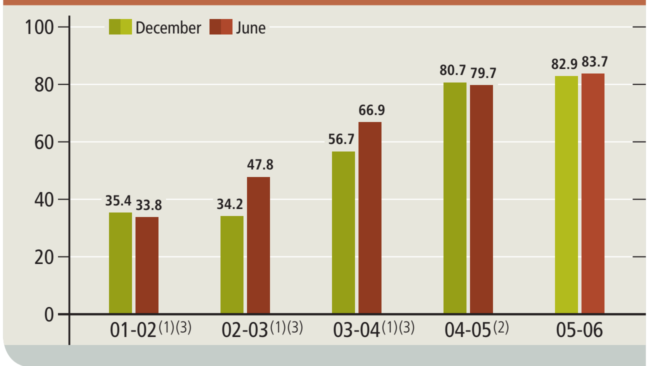

**Dividends interim/final**

Cents




**Earnings per share diluted**

Half Year %

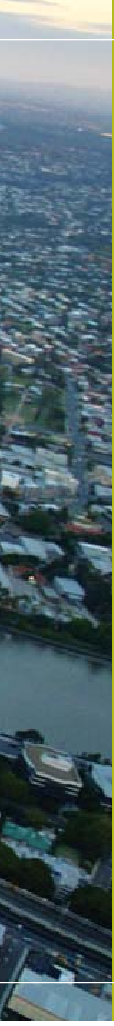



**Notes**

(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**

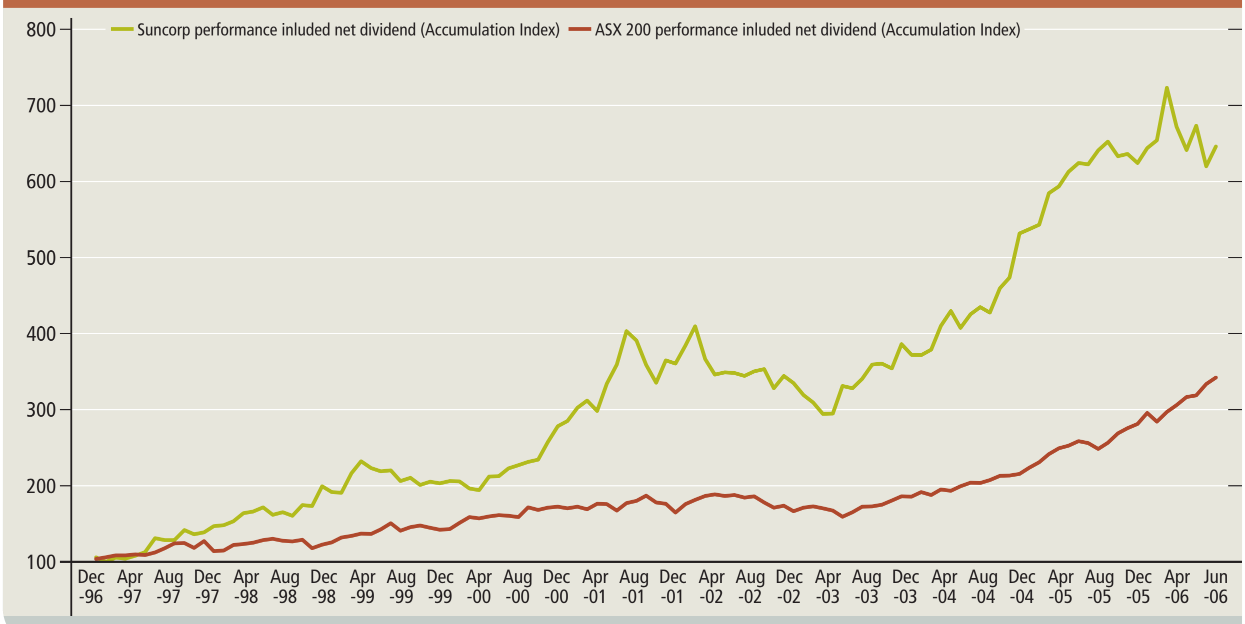
↗ **3.9%**
EARNINGS PER SHARE
**$1.67**

↗ **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 | Group Executive | Group Executive | Group Executive | CFO | Group Executive | Group Executive |
|---|---|---|---|---|---|---|
| Business Banking | Retail Banking and Wealth Management | General Insurance Personal Lines | General Insurance Commercial Lines | Chief Financial Office | Group Strategy | People, Technology and Marketing |

**Suncorp provides:**

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

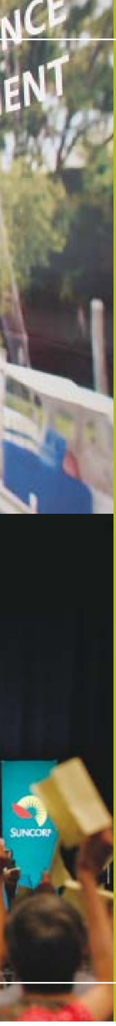
Suncorp's regulatory agenda also includes ongoing work to comply with Basel II framework. Within our bank, this has involved implementing vastly improved risk management systems and processes. We remain confident that compliance will be achieved across our operations by the prescribed date of January 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.

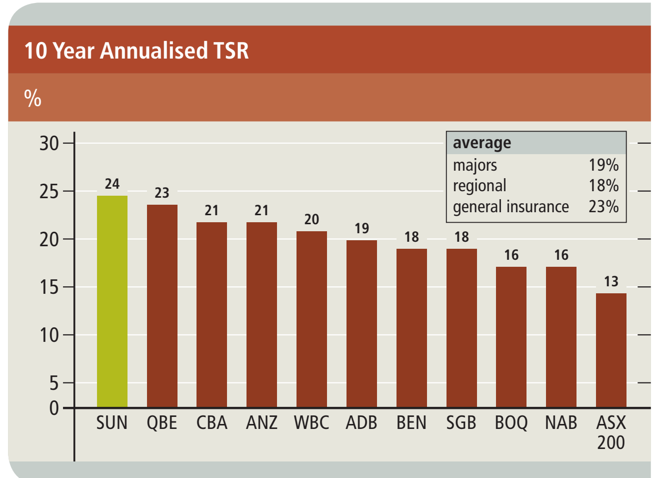
It is essential that all existing and proposed regulatory requirements be subject to regular and robust review to establish their relevance and continued worth for our key shareholder, customer, employee and community stakeholders.

## 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.'




**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.

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 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.

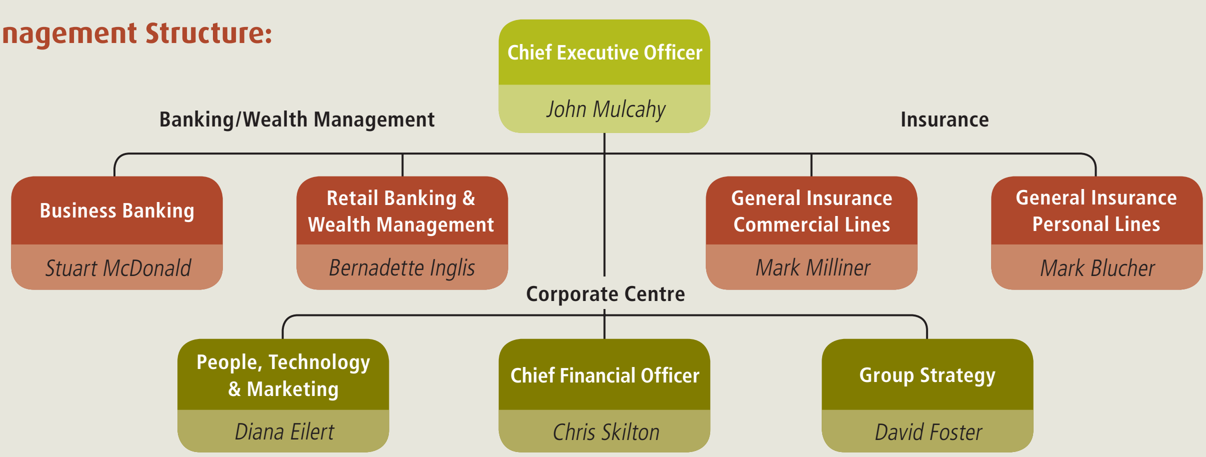
### Sponsorships

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.

**Management Structure:**



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.

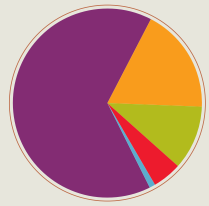
We have continued our strong focus on improving customer satisfaction. Our research indicated customers wanted competitively priced products that were simple to understand, accessible and flexible to use and operate. Our 'Simple Six' program was based on that insight. We reduced our product set to four 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



| | |
|---|---|
| Queensland | 65% |
| New South Wales<br>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.

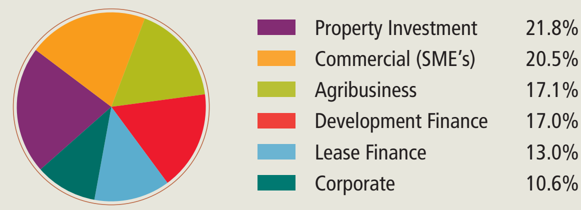
James Jauncey manages the family farm, including 500 acres of broccoli. The freshly harvested product goes straight to the Matilda Fresh Food processing facility in Toowoomba.

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.

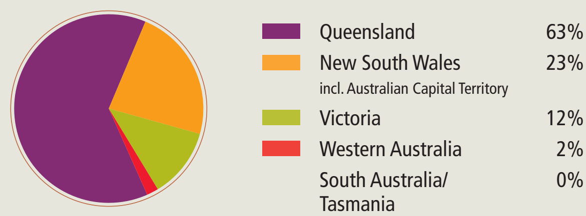
**Business Banking by portfolio**

$17.2b as at 30 June 2006




**Business Banking lending assets by state**

$17.2b as at 30 June 2006




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.

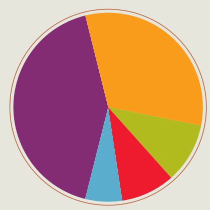
**Gross written premium by product**

$2.6b as at 30 June 2006

| | |
|---|---|
| Commercial | 29.5% |
| Motor | 28.9% |
| Home | 21.0% |
| CTP | 20.3% |
| Other | 0.3% |

**Gross written premium by state**

$2.6b as at 30 June 2006



| | |
|---|---|
| Queensland | 42.2% |
| New South Wales | 32.0% |
| Victoria | 10.3% |
| Western Australia | 9.2% |
| Other | 6.3% |

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

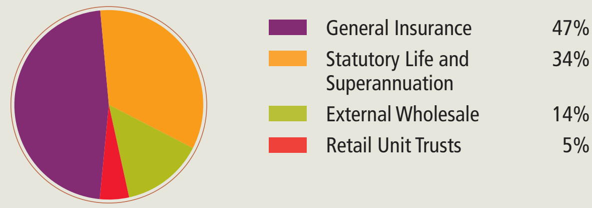
Last year we said we were ensuring that our people had career opportunities and leadership development capabilities available. Our people continue to be a strong platform for our success and over the last year we have seen the results in reduced employee turnover and the appointment and promotion of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

## 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.

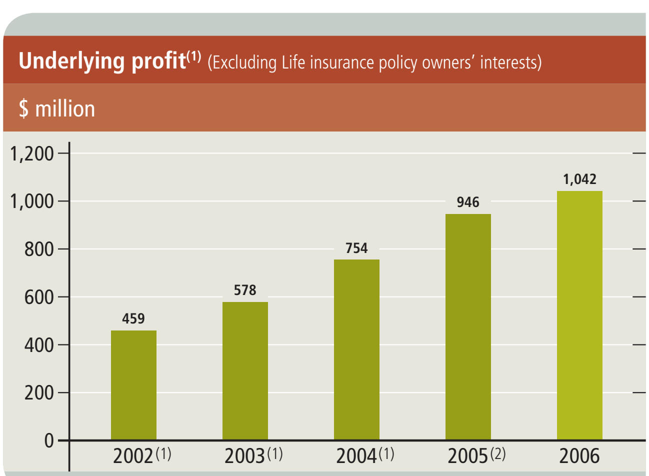
This process ensures there is ongoing assessment of individual and Group performance and also helps align the reward system to key corporate strategies and the sustained performance of the Group.

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**

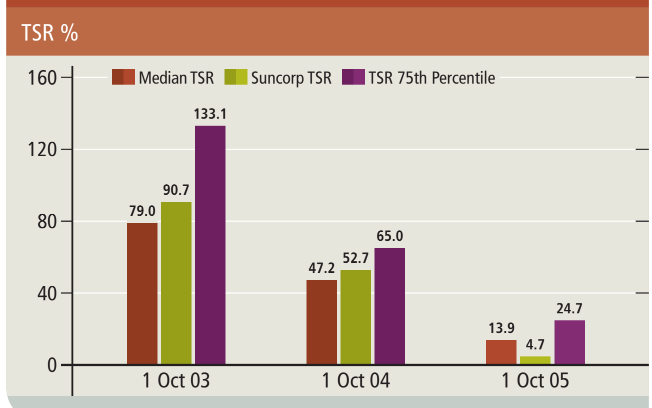
| Plan date | TSR percentile rank | Entitlement at 3 year performance period | % of eligible[1] employees who accepted 'vesting' |
|---|---|---|---|
| 13 December 2002 | 67th | 84% | 50% |
| 6 January 2003 | 65th | 80% | 0% |

**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.

**LTI performance** as at 30 June 2006




## *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

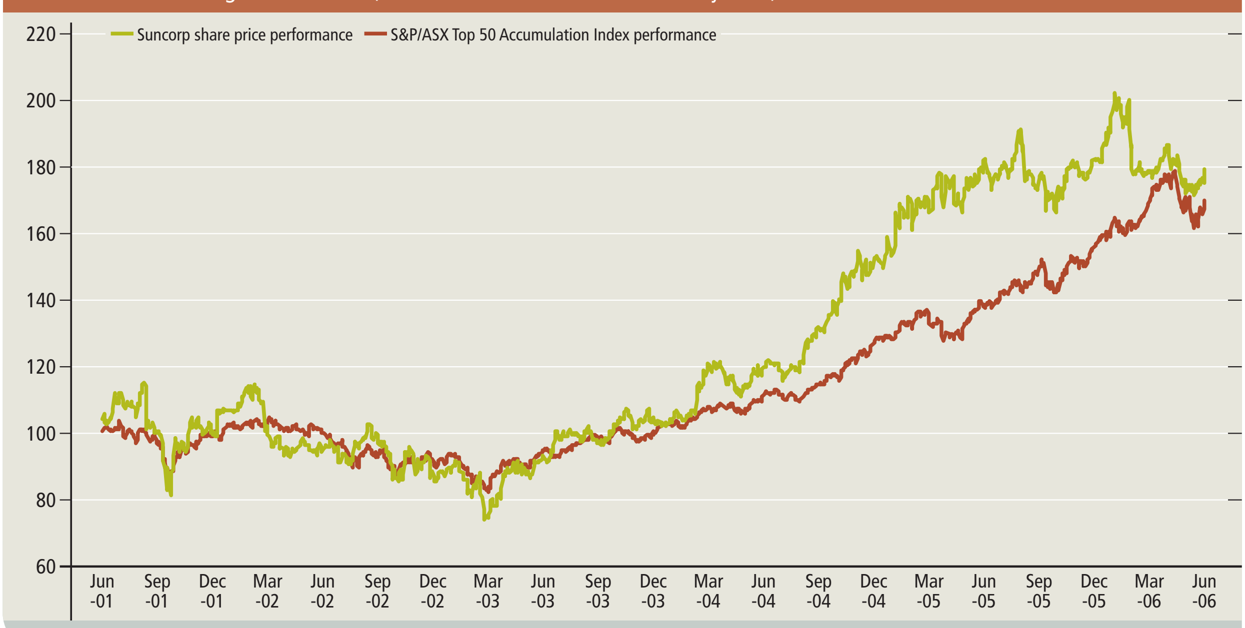
Group Executives enter into a standard contract of employment, which does not have a finite term nor contain any termination payment arrangements other than retrenchment payments which are either term based or contractual with the maximum at 18 months TEC. The contracts can be terminated by either the 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.

**Dividends paid/EPS**

cents


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

– Return Index Including Net Dividends (both indices rebased at 100 at 31 May 2001)



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<br>33,000 | 8.89<br>11.62 |
| P Johnstone | 42,000<br>42,000 | 8.89<br>11.62 |
| R Reimer | 27,000<br>8,000 | 8.89<br>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.

# Concise Financial Report

The concise financial report incorporating the financial statements and other specific disclosures is an extract of, and has been derived from Suncorp-Metway Ltd ('the Company') and its subsidiaries' ('the Group') consolidated financial report for the financial year. Other information included in the concise financial report is consistent with the Group's full consolidated financial report.

The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full consolidated financial report.

A copy of the Group's 2006 Annual Report, including the consolidated financial report and independent audit report, is available to all shareholders, and will be sent to shareholders without charge upon request.

| Contents | Page |
|---|---|

# Balance Sheet

## as at 30 June 2006

| | Consolidated 2006 $m | 2005 $m |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 489 | 1,084 |
| Receivables due from other banks | 26 | 67 |
| Other financial assets | | |
| Trading securities | 3,773 | 3,396 |
| Investment securities | 10,926 | 9,958 |
| Investments in associates and joint ventures | 138 | 213 |
| Loans, advances and other receivables | 39,633 | 35,771 |
| Bank acceptances of customers | 316 | 74 |
| Property, plant and equipment | 131 | 105 |
| Investment property | 196 | 156 |
| Intangible assets | 1,124 | 1,101 |
| Other assets | 617 | 563 |
| **Total assets** | **57,369** | **52,488** |
| **Liabilities** | | |
| Deposits and short term borrowings | 27,683 | 27,157 |
| Payables due to other banks | 120 | 66 |
| Bank acceptances | 316 | 74 |
| Payables and other liabilities | 781 | 1,044 |
| Current tax liabilities | 136 | 182 |
| Provisions | 154 | 201 |
| Deferred tax liabilities | 68 | 55 |
| Outstanding claims, unearned premiums and unexpired risk liabilities | 5,672 | 5,538 |
| Gross policy liabilities | 3,906 | 3,244 |
| Unvested policy owner benefits | 270 | 324 |
| Outside beneficial interests | 854 | - |
| Securitisation liabilities | 5,700 | 3,906 |
| Bonds, notes and long term borrowings | 5,560 | 4,468 |
| Subordinated notes | 1,466 | 968 |
| Preference shares | 250 | - |
| **Total liabilities** | **52,936** | **47,227** |
| **Net assets** | **4,433** | **5,261** |
| **Equity** | | |
| Share capital | 2,973 | 3,018 |
| Reserves | 28 | 12 |
| Retained profits | 1,432 | 1,484 |
| **Total equity attributable to equity holders of the parent** | **4,433** | **4,514** |
| Outside equity interests | - | 747 |
| **Total equity** | **4,433** | **5,261** |

The 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 Sheet is to be read in conjunction with the accompanying notes.

# Income Statement

## for the year ended 30 June 2006

| | Note | Consolidated 2006 $m | 2005 $m |
|---|---|---|---|
| **Revenue** | | | |
| Banking interest revenue | | 2,887 | 2,527 |
| Banking interest expense | | (2,039) | (1,740) |
| | | 848 | 787 |
| General insurance premium | 6 | 2,644 | 2,587 |
| Life insurance premium | 7 | 136 | 113 |
| Banking fee and commission revenue | 5 | 202 | 211 |
| Banking fee and commission expense | 5 | (73) | (82) |
| Reinsurance and other recoveries | | 335 | 338 |
| General insurance investment | | | |
| - insurance funds | 6 | 241 | 302 |
| - shareholder funds | 6 | 232 | 199 |
| Life insurance investment | 7 | 805 | 586 |
| Other revenue | | 210 | 280 |
| | | 5,580 | 5,321 |
| **Expenses** | | | |
| Operating expenses | | (1,431) | (1,260) |
| General insurance claims expense | 6 | (1,948) | (2,085) |
| Life insurance claims expense | 7 | (78) | (73) |
| Outwards reinsurance premium expense | | (145) | (147) |
| Increase in net policy liabilities | 7 | (497) | (378) |
| Increase in unvested policy owner benefits | 7 | 55 | 24 |
| Non-banking interest expense | | (184) | (26) |
| | | (4,228) | (3,945) |
| Share of profits of associates and joint ventures | | 25 | 28 |
| Profit before impairment losses on loans and advances and tax | | 1,377 | 1,404 |
| Impairment losses on loans and advances | | (31) | (27) |
| **Profit before tax** | | 1,346 | 1,377 |
| Income tax expense | | (430) | (386) |
| **Profit for the year** | | 916 | 991 |
| Profit attributable to outside equity interests | | - | 109 |
| **Profit attributable to equity holders of the parent** | | **916** | **882** |
| | | **Cents** | **Cents** |
| **Earnings per share for profit attributable to the ordinary equity holders of the Company:** | | | |
| Basic earnings per share | | 166.61 | 160.51 |
| Diluted earnings per share | | 166.56 | 160.39 |

The Income Statement includes the revenue 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 Statement is to be read in conjunction with the accompanying notes.

# Statement of Recognised Income and Expense

## for the year ended 30 June 2006

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

The Statement of Recognised Income and Expense includes the income and expense of the statutory funds of the Group's life insurance business which are subject to restrictions under the *Life Insurance Act 1995*.

The Statement of Recognised Income and Expense is to be read in conjunction with the accompanying notes.

# Statement of Cash Flows

## for the year ended 30 June 2006

| | Consolidated 2006 $m | Consolidated 2005 $m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest received | 3,262 | 2,873 |
| Premiums received | 3,033 | 2,958 |
| Reinsurance and other recoveries received | 322 | 523 |
| Dividends received | 175 | 104 |
| Recoveries on loans previously written-off | 1 | 1 |
| Other operating revenue received | 571 | 374 |
| Interest paid | (2,161) | (1,737) |
| Claims paid | (2,700) | (2,050) |
| Outwards reinsurance premiums paid | (251) | (158) |
| Operating expenses paid | (766) | (1,424) |
| Income tax paid – operating activities | (255) | (79) |
| | 1,231 | 1,385 |
| (Increase)/decrease in operating assets: | | |
| Banking securities | (612) | (889) |
| Loans, advances and other receivables | (3,736) | (4,876) |
| Increase/(decrease) in operating liabilities | | |
| Deposits and short term borrowings | 289 | 3,276 |
| Net cash from operating activities | (2,828) | (1,104) |
| **Cash flows from investing activities** | | |
| Proceeds from sale of insurance investments | 11,225 | 10,213 |
| 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) |
| 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) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of shares | 10 | 34 |
| Proceeds from issue of subordinated notes | 520 | 199 |
| Proceeds from net increase in bonds, notes and long term borrowings | 2,960 | 1,864 |
| Payments for net increase in treasury shares | (16) | (8) |
| Dividends paid | (792) | (349) |
| **Net cash from financing activities** | 2,682 | 1,740 |
| **Net increase/(decrease) in cash and cash equivalents** | (690) | 189 |
| Cash and cash equivalents at the beginning of the period | 1,085 | 802 |
| Cash balances acquired during the period | - | 94 |
| **Cash and cash equivalents at the end of the period** | **395** | **1,085** |

The 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 Statement 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. Basis of preparation of concise financial report

The concise financial report has been prepared in accordance with the *Corporations Act 2001* and Accounting Standard AASB 1039 *Concise Financial Reports*. The financial statements and specific disclosures required by AASB 1039 have been derived from the Group's full annual report for the financial year. Other information included in the concise financial report is consistent with the Group's full annual report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

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.

A full description of the accounting policies adopted by the Group may be found in the Group's full financial report.

Except for the changes detailed in note 2, these accounting policies have been consistently applied by each entity in the Group to all periods presented in the consolidated financial report and in preparing an opening Balance Sheet at 1 July 2004 for the purpose of the transition to Australian equivalents to International Financial Reporting Standards ('AIFRS').

The presentation currency is Australian Dollars.

## 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 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*, 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.

Descriptions 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 12.

## 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. Recoverable amount is determined by reference to the fair value less costs to sell which, in turn, can be conservatively estimated as the Group's market capitalisation as quoted on the Australian Stock Exchange.

#### 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.

#### 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.

The overall risk margin is determined allowing for the uncertainty of the outstanding claims estimate for each class of business and the diversification between classes. 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 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.

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

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.

## 3. Accounting estimates and judgements (continued)

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

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

### Banking activities

*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.

### General Insurance activities

*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.

*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.

## 3. Accounting estimates and judgements (continued)

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

### Wealth Management activities

*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.

*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 Sheet and amortised over the period to which the costs provide income.

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

## 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.

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 Services and property management services. |

# Notes to the Financial Statements
for the year ended 30 June 2006

## 4. Segment reporting (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 |
| **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 |

## 5. Contribution to profit from Banking activities

| | Consolidated Banking 2006 $m | Consolidated Banking 2005 $m |
|---|---|---|
| **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 as disclosed above as relevant to understanding the Group's performance. The above profit 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.

# Notes to the Financial Statements

for the year ended 30 June 2006

## 6. 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.

# Notes to the Financial Statements

for the year ended 30 June 2006

## 7. Contribution to profit from Wealth Management activities

| | Consolidated Wealth Management 2006 $m | Consolidated Wealth Management 2005 $m |
|---|---|---|
| **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:

| | Consolidated Wealth Management 2006 $m | Consolidated Wealth Management 2005 $m |
|---|---|---|
| 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.

## 8. 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 | 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.

## 9. Outstanding claims liability – General Insurance

| | Consolidated 2006 $m | 2005 $m |
|---|---|---|
| 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 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 93% probability of sufficiency (2005: 93-94%).

Risk margins applied (allowing for diversification)

| | Consolidated 2006 % | 2005 % |
|---|---|---|
| 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 |

## 10. 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 in respect of employees who resigned.

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

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

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

The number and weighted average exercise prices of share options 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.

## 10. Options (continued)

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). 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 |

## 11. 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.

## 12. Explanation of the transition to Australian equivalents to International Financial Reporting Standards

As stated in note 1, 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*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* 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

## 12. 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 Statement for the year ended 30 June 2005 are set out on the following pages. The restated consolidated Balance Sheets and consolidated Income Statement 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 consolidated Balance Sheet at 1 July 2004** | | | | | |
| **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** |

## 12. 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 consolidated Balance Sheet at 30 June 2005** | | | | | |
| **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** |

## 12. 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 $m | AIFRS $m |
|---|---|---|---|---|
| | | Year ended 30 June 2005 | | |
| **Restated consolidated Income Statement for the year ended 30 June 2005** | | | | |
| **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** |

## 12. 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 and an increase to provisions of $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, and 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, and 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.

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.

## 12. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

**Part A: AIFRS adjustments in the comparative period (continued)**

**(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:

- An increase to deferred tax liabilities of $2 million and a decrease in retained profits of $2 million 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 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 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.

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 liabilities decrease by $19 million and retained profits increase by $19 million; and
- At 30 June 2005, deferred tax liabilities decrease by $22 million and retained profits increase by $22 million.

For AIFRS comparative purposes, the impact on the tax expense is a decrease of $3 million for the year ended 30 June 2005.

**(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 and a decrease to retained profits of $18 million. At 30 June 2005, this results in a decrease to intangible assets of $21 million, a decrease to other assets of $3 million and a decrease to retained profits of $24 million.

For AIFRS comparative disclosure purposes, operating expenses increase and profit before tax decreases by $6 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.

# Notes to the Financial Statements

for the year ended 30 June 2006

## 12. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

**Part A: AIFRS adjustments in the comparative period (continued)**

### (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 has been transferred to retained profits.

As set out in note (e) 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, an increase to payables and other liabilities of $5 million and a decrease to retained profits of $4 million. 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 and a decrease to retained profits of $6 million.

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 other assets of $3 million, an increase in share capital of $2 million, and an increase in retained profits of $1 million, representing the reversal of an expense recognised under previous GAAP. At 30 June 2005, this adjustment results in an increase in other assets of $8 million, an increase in share capital of $5 million, and an increase in retained profits of $3 million.

For AIFRS comparative disclosure purposes, operating expenses decrease and profit before tax increases by $2 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 property 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 Property* 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 property 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 property 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;
- Investment property of $84 million at 1 July 2004 and $95 million at 30 June 2005 have been reclassified from investment securities to investment property; and
- 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.

## 12. Explanation of the transition to Australian equivalents to International Financial Reporting Standards (continued)

**Part A: AIFRS adjustments in the comparative period (continued)**

**Consolidated 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 2006 $m | 30 June 2004 $m |
|---|---|---|---|
| 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** |

**Impact of transition to AIFRS on consolidated 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 |
| 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 |

# Notes to the Financial Statements

for the year ended 30 June 2006

## 12. 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 Sheet reflects 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 consolidated Balance Sheet at 1 July 2005** | | | | | |
| **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), (viii) | 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), (viii) | 1,044 | 51 | 120 | 1,215 |
| Current tax liabilities | | 182 | - | - | 182 |
| Provisions | (viii) | 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), (viii) | 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** |

## 12. 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, and distributions are $16 million for the year ended 30 June 2006. Transaction costs from issuing the preference shares of $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, short term borrowings increase by $4 million, payables and other liabilities increase by $20 million, subordinated debt decreases by $11 million, equity reserves decrease by $17 million and retained profits decrease by $2 million.

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.

## 12. 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 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, a decrease to other assets of $32 million, a decrease to payables and other liabilities of $1 million and a decrease in retained profits of $22 million.

**(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.

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.

**(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 decrease deferred tax liabilities by $36 million, increase equity reserves by $7 million and increase retained profits by $29 million.

**(viii) 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 reclassification in addition to the adjustments above is to decrease other assets by $8 million, increase payables and other liabilities by $51 million, decrease provisions by $51 million and decrease securitisation liabilities by $8 million.

# Directors' Declaration

In the opinion of the directors of Suncorp-Metway Ltd, the accompanying concise financial report 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 of the Group, comprising Suncorp-Metway Ltd and its subsidiaries for the year ended 30 June 2006 set out on pages 58 to 82:

a) has been derived from or is consistent with the full financial report for the financial year; and

b) complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

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

KPMG

# Independent Audit Report
## on the Concise Financial Report to the members of Suncorp-Metway Ltd

### Scope

*The financial report, remuneration disclosures and directors' responsibility*

The concise financial report comprises the Balance Sheet, Income Statement, Statement of Recognised Income and Expense, Statement of Cash Flows, accompanying notes 1–12, and the Directors' declaration for Suncorp-Metway Ltd ('the Company') and its subsidiaries (the 'Group') for the financial year ended 30 June 2006.

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 concise financial report.

The directors of the Company are responsible for the preparation of the concise financial report in accordance with Australian Accounting Standard AASB 1039 *Concise Financial Reports*. 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 concise financial report. 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 members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the concise 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 have also performed an independent audit of the full financial report and the remuneration disclosures of the Company and its subsidiaries for the financial year ended 30 June 2006. The Remuneration report in the full financial 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. Our audit report on the full financial report and the remuneration disclosures were signed on 1 September 2006, and was not subject to any qualification.

We performed procedures in respect of the audit of the concise financial report to assess whether, in all material respects, the concise financial report is presented fairly in accordance with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

We formed our audit opinion on the basis of these procedures, which included:

- testing that the information in the concise financial report is consistent with the full financial report; and
- examining, on a test basis, information to provide evidence supporting the amounts, and other disclosures, which were not directly derived from the full financial report.

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 concise financial report of Suncorp-Metway Ltd and its subsidiaries for the financial year ended 30 June 2006 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

KPMG

**KPMG**

BGreig

**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



## Tables and Graphs

# Contacts

## Registered Office

**Suncorp-Metway Ltd**
Level 18
36 Wickham Terrace
Brisbane Qld 4000
Telephone: (07) 3835 5355
Facsimile: (07) 3836 1190
Internet: www.suncorp.com.au
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.

## GIO

| | |
|---|---|
| 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.

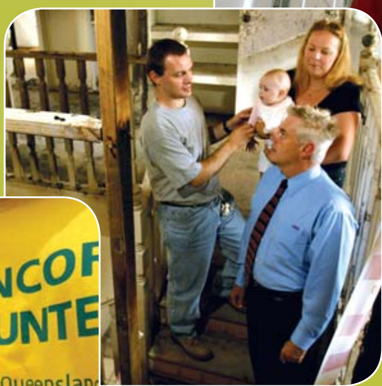
The site offers Internet banking, Share Trade to buy and sell shares, the ability to open and manage a margin lending facility and managed superannuation and wrap accounts.

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.


RETAIL BANKING

WEALTH MANAGEMENT

BUSINESS BANKING



GENERAL INSURANCE


OUR PEOPLE


COMMUNITY

Concise Report 2006

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