

# Suncorp Life and Superannuation Limited

ABN: 87 073 979 530

## Financial Report - 30 June 2010

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Suncorp Life and Superannuation Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

Level 18  
Suncorp Metway Centre  
36 Wickham Terrace  
Brisbane, QLD 4000  
Australia.

A description of the nature of the Company's operations and its principal activities is included in the Director's Report on pages 1 and 2, which is not part of the financial report.

Your directors present their report together with the financial report for Suncorp Life & Superannuation Limited ("the Company") for the year ended 30 June 2010.

## Directors

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

### Non-executive

John D <b>Story</b> (Chairman)	(appointed 1 December 1996)
William J <b>Bartlett</b>	(appointed 1 July 2003)
Dr Ian D <b>Blackburne</b>	(appointed 3 August 2000)
Paula J <b>Dwyer</b>	(appointed 26 April 2007)
Dr Cherrell <b>Hirst</b> AO	(appointed 8 February 2002, resigned 16 April 2010)
Martin D E <b>Kriewald</b>	(appointed 14 June 1996, resigned 16 April 2010)
Ewoud J <b>Kulk</b>	(appointed 20 March 2007)
Geoffrey T <b>Ricketts</b>	(appointed 20 March 2007)
Dr Zygmunt E <b>Switkowski</b>	(appointed 19 September 2005)
Leo E <b>Tutt</b>	(appointed 20 March 2007, resigned 28 October 2009)
Stuart I <b>Grimshaw</b>	(appointed 27 January 2010)

### Executive

Patrick J R <b>Snowball</b>	(appointed 1 September 2009)
Christopher <b>Skilton</b>	(appointed 13 November 2002, resigned 31 August 2009)

## Principal activities

The principal activities of the Company during the course of the year were the provision of 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 carried out by the Company during the year.

## Operating and financial review

### **Overview of the Company**

Profit from ordinary activities after income tax attributable to equity holders for the year ended 30 June 2010 was \$58.2 million (2009: \$64.3 million).

Premiums for the year were \$212.0 million, net of conversions of \$1,708.8 million transferring between statutory funds. (2009: \$220.5 million, net of conversions of \$320.0 million transferring between statutory funds.)

Total assets increased from \$4,109.9 million to \$4,134.1 million mainly due to an increase in investment values.

The financial strength of our business is reflected by the coverage of the Solvency Reserve, based on the Solvency Requirement as prescribed by APRA's Prudential Standard LPS 2.04. The coverage of the Solvency Reserve for the statutory funds of 2.7 times at 30 June 2010 (2009: 2.7 times) has been maintained throughout the year.

Total distributions of profits to participating policyowners increased materially over the year having regard to the economic environment in the current year compared to the previous year. The prospects for participating policyowners remain sound given the financial position of our Capital Guaranteed Fund and the current and prospective profitability of the fund. The capital adequacy position of the fund is strong and provides appropriate security for the guarantees being offered.

On 1 October 2009, the Suncorp Group rearranged the legal entity structure for all of the Suncorp Group's life businesses. Accordingly the Company sold certain of its subsidiaries to entities within the group at its net carrying value. Subsequent to the sale, the Company reduced its share capital by redeeming ordinary shares (Note 22).

Operating and financial review (continued)

**Significant changes in state of affairs**

In the opinion of the directors there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

**Environmental regulation**

The operations of the Company are not subject to any particular and significant environmental regulation under any law of the Commonwealth of Australia or any of the States or Territories.

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

**Dividends**

During the year the directors recommended and paid interim dividends of \$0.817 per ordinary share (2009: \$0.191), amounting to \$31.9 million (2009: \$7.4 million). Further details of dividends paid are set out in note 23 to the financial report.

Since the end of the financial year the directors have recommended payment of final dividend of \$0.771 per ordinary share amounting to \$30.0 million (2009: \$ nil).

**Events subsequent to reporting date**

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

**Likely developments**

There has been no substantial change in business operations and none are expected in the coming financial year. Further information on the likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

**Indemnification and insurance of officers**

**Indemnification**

Under the ultimate parent entity's Constitution, the ultimate parent entity, Suncorp-Metway Ltd, 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 controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Constitution stipulates that the ultimate parent entity 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*.

**Insurance premiums**

Since the end of the previous financial year the ultimate parent entity of the Company has 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. The Directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the insurance contract as disclosure is prohibited under the terms of the contract.

**Lead auditor's independence declaration**

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the year ended 30 June 2010.

**Rounding off**

The Company is of a kind referred to in ASIC Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest one hundred thousand dollars unless otherwise stated.

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



**John D Story**  
Director



**Patrick J R Snowball**  
Executive Director

Brisbane  
**25 August 2010**



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Suncorp Life & Superannuation Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

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

A handwritten signature in black ink that reads 'KPMG' with a long horizontal stroke extending to the right.

KPMG

A handwritten signature in black ink, appearing to be 'David Kells', written in a cursive style.

David Kells  
*Partner*

Sydney

25 August 2010

**Suncorp Life and Superannuation Limited****ABN 87 073 979 530****Financial report****30 June 2010****Table of contents**

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Suncorp Life & Superannuation Limited  
**Statement of financial position**  
*as at 30 June 2010*

	Note	2010 \$m	2009 \$m
<b>Assets</b>			
Cash and cash equivalents	14	342.1	166.6
Outstanding premiums		12.1	12.2
Other financial assets			
Equity security investments	15	1,684.9	1,478.3
Debt security investments	15	1,669.3	1,882.2
Property investments	15	218.9	157.1
Other investments	15	7.0	165.7
Receivables	16	85.7	86.5
Gross policy liabilities ceded under reinsurance	21(d)	92.8	84.3
Deferred acquisition costs	17	6.1	41.0
Deferred tax assets	13	15.1	33.8
Other assets	18	0.1	2.2
<b>Total assets</b>		<b>4,134.1</b>	<b>4,109.9</b>
<b>Liabilities</b>			
Payables and other liabilities	19	61.8	63.5
Premiums in advance		3.2	3.2
Deposits and short term borrowings	20	18.2	30.7
Gross insurance contract liabilities	21(b)	1,783.5	1,904.3
Gross investment contract liabilities	21(c)	1,527.0	1,400.2
Unvested policy owner benefits	21(e)	386.5	380.3
<b>Total liabilities</b>		<b>3,780.2</b>	<b>3,782.2</b>
<b>Net assets</b>		<b>353.9</b>	<b>327.7</b>
<b>Equity</b>			
Share capital	22	38.9	39.0
Retained earnings		315.0	288.7
<b>Total equity</b>		<b>353.9</b>	<b>327.7</b>

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

Suncorp Life & Superannuation Limited  
**Statement of comprehensive income**  
*for the year ended 30 June 2010*

	Note	2010 \$m	2009 \$m
<b>Revenue</b>			
Premium revenue	7	212.0	220.5
Less: Outwards reinsurance expense		(47.6)	(47.4)
Net premium revenue		164.4	173.1
Investment revenue	8	362.4	(348.4)
Other revenue	9	53.1	33.7
<b>Net revenue</b>		<b>579.9</b>	<b>(141.6)</b>
<b>Claims and expenses</b>			
Claims expense	10	(165.8)	(145.8)
Less: Reinsurance recoveries revenue	9	39.5	33.6
Net claims expense		(126.3)	(112.2)
Operating expenses	11	(101.7)	(107.6)
(Increase) Decrease in net insurance contract liabilities	21(b),(d)	(98.6)	280.1
(Increase) Decrease in investment contract liabilities	21(c)	(148.6)	188.3
Increase in unvested policy owner benefits	21(e)	(6.2)	(83.4)
<b>Net claims and expenses</b>		<b>(481.4)</b>	<b>165.2</b>
<b>Profit before tax</b>		<b>98.5</b>	<b>23.6</b>
Income tax expense	13	(40.3)	40.7
<b>Profit for the period</b>		<b>58.2</b>	<b>64.3</b>
<b>Other comprehensive income for the period</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the period attributable to the members of Suncorp Life &amp; Superannuation Limited</b>		<b>58.2</b>	<b>64.3</b>

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



Suncorp Life & Superannuation Limited  
**Statement of changes in equity**  
*for the year ended 30 June 2010*

	Notes	Share capital \$m	Retained earnings \$m	Total equity \$m
Balance at 1 July 2008		39.0	238.8	277.8
<b>Total comprehensive income for the period</b>				
Profit		-	64.3	64.3
Other comprehensive income		-	-	-
<b>Total comprehensive income for the period</b>		-	<b>64.3</b>	<b>64.3</b>
<b>Transactions with owners, recorded directly in equity</b>				
Contribution by and distribution to owners:				
Dividends to shareholders	23	-	(14.4)	(14.4)
<b>Total contribution by and distribution to owners</b>		-	<b>(14.4)</b>	<b>(14.4)</b>
<b>Balance at 30 June 2009 / 1 July 2009</b>		<b>39.0</b>	<b>288.7</b>	<b>327.7</b>
<b>Total comprehensive income for the period</b>				
Profit		-	58.2	58.2
Other comprehensive income		-	-	-
<b>Total comprehensive income for the period</b>		-	<b>58.2</b>	<b>58.2</b>
<b>Transactions with owners, recorded directly in equity</b>				
Contribution by and distribution to owners:				
Capital redemption	22	(0.1)	-	(0.1)
Dividends to shareholders	23	-	(31.9)	(31.9)
<b>Total contribution by and distribution to owners</b>		<b>(0.1)</b>	<b>(31.9)</b>	<b>(32.0)</b>
<b>Balance at 30 June 2010</b>		<b>38.9</b>	<b>315.0</b>	<b>353.9</b>

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

Suncorp Life & Superannuation Limited  
**Statement of cash flows**  
for the year ended 30 June 2010

	2010	2009
Note	\$m	\$m
<b>Cash flows from operating activities</b>		
Premiums received	548.5	714.7
Fee income received	39.3	32.8
Other operating income received (paid)	(0.1)	1.2
Reinsurance premiums paid	(51.0)	(43.8)
Claims payments under policies	(737.3)	(1,022.0)
Reinsurance and other recoveries received	37.0	29.2
Operating expenses paid	(76.8)	(104.7)
Interest received	99.8	60.0
Dividends received	39.4	179.6
Property income received	6.3	6.4
Other investments (paid) received	19.7	(7.3)
Tax paid	(16.7)	(41.9)
<b>Net cash outflow from operating activities</b>	<b>(91.9)</b>	<b>(195.8)</b>
	24	
<b>Cash flows from investing activities</b>		
Purchases of financial assets	(3,605.7)	(4,765.4)
Proceeds from sale of investments	3,917.9	5,006.5
Net movement in loans	(0.3)	0.4
<b>Net cash inflow from investing activities</b>	<b>311.9</b>	<b>241.5</b>
<b>Cash flows from financing activities</b>		
Repayment of share capital	(0.1)	-
Net decrease in deposits and other borrowings	(12.5)	(3.1)
Dividends paid	(31.9)	(14.4)
<b>Net cash outflow from financing activities</b>	<b>(44.5)</b>	<b>(17.5)</b>
<b>Net increase in cash and cash equivalents</b>	<b>175.5</b>	<b>28.2</b>
Cash and cash equivalents at 1 July	166.6	138.4
<b>Cash and cash equivalents at 30 June</b>	<b>342.1</b>	<b>166.6</b>
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The above statement of cash flows is to be read in conjunction with the accompanying notes.

## 1. Reporting entity

Suncorp Life & Superannuation Limited ("the Company") is a company domiciled in Australia. The address of the Company's registered office is Level 18, 36 Wickham Terrace, Brisbane, QLD, 4000.

## 2. Basis of preparation

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial report of the Company complies with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements of the Company are separate financial statements. No consolidated financial statements have been prepared as the Company has no publicly traded debt or equity instruments, and its ultimate parent entity prepares consolidated financial statements for public use.

The financial statements were authorised for issue by the Board of Directors on 25 August 2010.

### (b) Basis of measurement

The Company's financial statements have been 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 to back life insurance policy liabilities and life investment contract liabilities.

### (c) Liquidity

The statement of financial position is prepared using a liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding expected settlement or recoverability is included with the relevant notes to the financial statements.

### (d) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's functional currency.

### (e) Rounding

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, as amended and in accordance with the Class Order, amounts in the financial report and the director's report have been rounded to the nearest hundred thousand dollars unless otherwise stated.

### (f) Use of estimates and judgements

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

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

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.

#### (i) *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.

## 2. Basis of preparation (continued)

### (f) Use of estimates and judgements (continued)

#### (i) Insurance contract liabilities (continued)

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 policyowner benefits;
- the cost of providing the benefits and administering these insurance contracts; and
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts.

In addition, factors such as regulation, competition, interest rates, taxes, security market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Company shares experience on mortality, morbidity, persistency and investment results with its customers, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 4.

#### (ii) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also determined using the same methods as for insurance contract liabilities. In addition, the recoverability of these assets is assessed on a periodic basis to consider whether 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.

#### (iii) 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 statement of financial position 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 "payables and other liabilities" in the balance sheets and amortised over the period during which the associated revenue is expected to provide income.

## 3. Significant accounting policies

Except as described in the subsequent notes, the accounting policies set out below have been applied consistently to all periods presented in the financial statements, and have been applied consistently by the Company.

Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

The Company adopted Australian Accounting Standards and Interpretations which were mandatory for annual reporting periods beginning on or after 1 July 2009. There has been no effect on the financial performance or position of the Company from the adoption of these standards and Interpretations.

The following standards, amendments to standards and interpretations that are relevant to current operations are available for early adoption but have not been applied by the Company in this financial report:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace *AASB 139 Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Company's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Company has not yet determined the potential effect of the standard.
- AASB 124 *Related Party Disclosure* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Company's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

### 3. Significant accounting policies (continued)

- *AASB 2009-5 Further amendments to Australian Accounting Standards – arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Company's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- *AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions* resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments, AI 8 Scope of AASB 2 and AI 11 AASB 2 – *Group and Treasury Share Transactions* will be withdrawn from the application date. The amendments, which become mandatory for the Company's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- *AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issue* (AASB 132) (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Company's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Company's 30 June 2011 financial statements, with retrospective application required. The Company has not yet determined the potential effect of the interpretation.

#### (a) Principles underlying conduct of the life insurance business

Suncorp Life & Superannuation Limited is registered under the *Life Insurance Act 1995* ("*Life Act*").

The life insurance operations of the Company are conducted within two separate statutory funds, as required by the *Life Act*, and are reported in aggregate with the shareholder's fund in the Company's statement of comprehensive income, statement of financial position and statement of cash flows. The life insurance operations consist of insurance contract and investment contract business.

Insurance contract business relates to the transfer of significant insurance risks from the policyowner to compensate the policyowner if a specified uncertain future event adversely affects the policyowner. The compensation, referred to as insured benefits, is payable on death, or on the occurrence of a contingency dependent on the termination or continuance of human life, or on the occurrence of injury or disability caused by accident or illness, and the financial risk of the occurrence of the event which crystallises the payment of the insured benefit is borne by the Company. The insured benefit is not directly linked to the market value of the investments held. Participating business is treated as insurance contract business under AASB 1038 *Life Insurance Contracts*.

Participating policyowner benefits in relation to insurance contract business, both vested and unvested, are treated as expenses when incurred and liabilities until paid. Eighty percent of the participating business profits, before allocation of bonuses, is allocated to policyowners and expensed in the profit or loss. The remaining twenty percent is allocated to the shareholder. All profits and losses from non-participating business are allocated to the shareholder.

### 3. Significant accounting policies (continued)

#### (a) Principles underlying conduct of the life insurance business (continued)

Investment contract business relates to Superannuation & Investments' products in which the Company issues a contract where, except for fixed income policies, the resulting liability to policyowners is linked to the performance and value of the assets that back those liabilities. Whilst the underlying assets are registered in the name of the Company and the policyowner has no direct access to the specific assets, the contractual arrangements are such that the policyowner bears the risks and rewards of the fund's investment performance. For fixed income policies the resulting liability to policyowners is linked to the fair value of the policy cash flows. Such contracts, which do not meet the definition of an insurance contract, are referred to as life investment contracts when issued by a registered life insurance entity and administered through life statutory funds in accordance with the requirements of the *Life Act*. The Company derives fee income from the administration of the underlying assets.

Assets and liabilities held in the life insurance funds are subject to the distribution and transfer restrictions and other requirements of the *Life Act*.

#### (b) Foreign currency

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

#### (c) Derivative financial instruments

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

The Company utilises derivative financial instruments to hedge underlying exposures in investments backing insurance contract liabilities and investment contract liabilities. Derivative financial instruments are not held for speculative purposes. Interest rate derivatives are used to hedge interest rate risks inherent in the business. Equity options and futures are purchased to hedge exposures arising from equity investments.

Derivative financial instruments are initially recognised at trade date at fair value excluding transaction costs and are subsequently remeasured at their fair value as at the reporting date. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### (d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on deposit, highly liquid short-term investments and money at short call. They are measured at fair value through profit or loss, being the gross value of the outstanding balance. Bank overdrafts are shown within financial liabilities in the statement of financial position unless there is a right of offset.

#### (e) Financial assets

A financial asset is recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

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

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

The assets of the life insurance business are assessed under AASB 1038 *Life Insurance Contracts* to be assets that are held to back life insurance and life investment contracts or other assets.

#### (i) Financial assets backing life insurance and life investment liabilities

The Company has determined that all assets within its statutory funds are assets backing policy liabilities. These assets are designated as fair value through profit and loss, and are measured based on the current bid price where available. Where a quoted price is not available one of the following valuation techniques are used to value the assets at reporting date: recent arms length transactions, discounted cash flow analysis, option pricing models or other valuation techniques commonly used by market participants. Movements in the fair value are taken immediately to the profit or loss.

### 3. Significant accounting policies (continued)

#### (e) Financial assets (continued)

These assets include:

- Investment securities comprise holdings in unlisted managed funds, futures and forward foreign exchange contracts.
- Receivables comprise premium debtors, reinsurance and other recoveries, investment related receivables, distributions receivable and loans. Receivables are recognised at fair value which is approximated by taking the initially recognised amount and reducing it for credit risk as appropriate. Given the short-term nature of most receivables, the recoverable amount approximates fair value.

#### (ii) *Financial assets not backing life insurance and life investment liabilities*

Financial assets held within the shareholder fund and subsidiaries do not back life insurance liabilities or life investment liabilities, and include investment securities and loans and other receivables.

Investment securities have been designated as fair value through profit or loss as they are managed and their performance evaluated on a fair value basis in accordance with the investment strategy.

Investments in subsidiary companies are recorded at cost less any accumulated impairment losses. On consolidation, the investment in subsidiaries is eliminated.

Loans and other receivables are measured at amortised cost less accumulated impairment losses.

#### (f) Deferred acquisition costs

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

Acquisition costs that are available for deferral on life investment contracts are the incremental variable distribution costs incurred when acquiring new business.

For investment contracts, all incremental acquisition costs are deferred and recognised as an asset in the statement of financial position. The amount of the deferred acquisition costs is assessed at each reporting date and the asset is amortised as the revenue to which those costs relate is recognised.

All other acquisition costs are expensed as incurred.

#### (g) Impairment

Assets are assessed for indicators of impairment at each reporting date. Indicators include both internal and external factors. If any such indication exists, the asset's recoverable amount is estimated.

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

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### (i) *Calculation of recoverable amount*

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

#### (ii) *Reversal of impairment*

An impairment loss for an asset is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. The impairment loss can be reversed, in the profit or loss, only to the extent that it increases the asset back to its original carrying amount before impairment was recorded.

### 3. Significant accounting policies (continued)

#### (h) Financial liabilities

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

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

##### (i) *Shareholder's entitlement to monies held in statutory funds*

Monies held in the statutory funds are subject to the distribution and transfer restrictions and other requirements of the Life Act.

##### (ii) *Financial liabilities at fair value through profit or loss*

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

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

The Company has designated the deposits and borrowings of the statutory funds as being at fair value through profit or loss and are determined using the transaction price where available. Movements in the fair value are recognised in the profit or loss.

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

##### (iii) *Financial liabilities at amortised cost*

Financial liabilities, other than financial liabilities at fair value through profit or loss, are subsequently measured at amortised cost using the effective interest method.

The Company has classified the deposits and borrowings of the shareholder fund and Company as being loans and receivables and measured at amortised cost.

##### (iv) *Other liabilities*

Other liabilities are measured at net present values and changes in their net present values are recognised in the income statements as revenues or expenses in the financial year in which the changes occur.

##### (i) **Deferred revenue**

The Company has determined that upfront fees are financial service revenues on investment contracts that are not fully earned when the sale is made. These fees are deferred and recognised as a liability. The amount of the deferred revenue is assessed at each reporting date and the liability is amortised over the life of the contract and recognised in the income statements. All other financial service fees are recognised as revenues as the service is provided.

##### (j) **Provisions**

A provision is a liability of uncertain timing or amount which is recognised in the statement of financial position when:

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

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

##### (k) **Policy liabilities**

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



### 3. Significant accounting policies (continued)

#### (k) Policy liabilities (continued)

The life insurance policy liability valuation determines the capital and retained profits of the statutory funds and the shareholder fund. The components for life insurance contracts and life investment contracts are reported on the statement of financial position as gross policy liabilities, policy liabilities ceded to reinsurers and unvested policyowner benefits. Movements in these balances drive the profit emergence and are reported in the profit or loss, including the proposed transfer to the shareholder fund in respect of participating business.

##### (i) Insurance contracts

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

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (premiums, claims, expenses and profit margins to be released in future periods) are projected into the future. The liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets. Where the benefits are not linked to the performance of the backing assets, a risk-free discount rate is used. The risk-free discount rate is determined by the Appointed Actuary based on the Commonwealth Government bond rate, having regard to the nature, structure and term of the contract liabilities.

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

Participating policies are entitled to share in the profits that arise from participating business. This profit sharing is governed by the *Life Act* and the life insurance company's constitution. The participating policyowner profit sharing entitlement is treated as an expense in the profit or loss.

##### Allocation of operating profit and unvested policyowner benefits

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

Once profit is allocated to participating policyowners it can only be distributed to these policyowners. Profit allocated to participating policyowners is recognised in the profit or loss as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyowners (ie unvested), and that which has been allocated to specific policyowners by way of bonus distributions (ie vested), are included within life insurance contract liabilities.

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

##### (ii) Investment contracts

Life investment contracts consist of a financial instrument and a management services element. The financial instrument represents the unit liability to the policyowner and is measured at fair value, with a minimum equal to the amount payable on demand. Movements in fair value are recognised in the profit or loss. The management services element refers to activities and cash flows arising from management services provided, representing the deferral of fees yet to be earned and expenses yet to be recognised and is measured at fair value, refer notes 3(g) and 3(j).

##### (l) Liability adequacy test

The adequacy of the insurance liabilities is evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. If it is determined using best estimate assumptions, and a risk free discount rate for participating business, that a shortfall exists, it is immediately recognised in the profit or loss.

##### (m) Unvested policyowner benefits

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

### 3. Significant accounting policies (continued)

#### (n) Share capital

Ordinary shares are classified as equity.

##### (i) Dividends

Provision is made for the amount of any dividend declared, determined, or publicly recommended by the directors on or before the end of the financial year, but not distributed at reporting date. Where a dividend is declared post reporting date but prior to the date of the financial statements, disclosure of the declaration is made in the financial statements but no provision is made.

##### (o) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the statement of financial position but are disclosed in the financial report, unless the possibility of settlement is remote, in which case no disclosure is made. If settlement becomes probable, and the amount can be reliably estimated, a provision is recognised.

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

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

##### (p) Commitments

Commitments are not recorded in the balance sheets but are disclosed in the financial report at their face value.

Commitments to extend credit, letters of credit, guarantees, warranties and indemnities are classed as financial instruments and attract fees in line with market prices for similar arrangements and reflect the probability of default. They are not sold or traded. They are disclosed as contingent liabilities at their face value.

##### (q) Revenue

###### (i) Life insurance premium revenue

Premiums received are separated into their revenue and liability components. The premium recorded as revenue in the profit or loss relates to life insurance contracts. The components of premium that relate to life investment contracts are in the nature of deposits and are recognised as a movement in policy liabilities.

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

###### (ii) Life insurance reinsurance and other recoveries revenue:

Policy claims recoverable from reinsurers are recognised as revenue at the time they come into effect in accordance with the reinsurance treaties.

###### (iii) Investment revenue

###### Investment revenue and expenses

All investment revenue and expenses are brought to account on an accrual basis in the period earned or incurred which may differ from when cash is transferred.

###### Interest

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

###### Dividends

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

###### (iv) Fees and other revenue

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

Life investment contracts consist of a financial instrument and a management services element. The payment by the policyowner includes the amount to fund the financial instrument and an entry fee for the origination of the contract. Entry fees from investment contracts are deferred and recognised over the average expected life of investment contracts. Deferred entry fees are presented as "payables and other liabilities" on the statement of financial position. The financial instrument is classified as an investment contract and is measured at fair value (see note 3(k)(ii)).

### 3. Significant accounting policies (continued)

#### (q) Revenue (continued)

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

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

#### (r) Acquisition costs

##### (i) Life insurance contracts

The value and future recovery of life insurance contracts acquisition costs are determined according to MoS techniques.

Acquisition costs are deferred and amortised over the period that they will be recovered. The deferral and amortisation is recognised in the profit or loss as an increase/decrease in net life insurance contract liabilities.

Acquisition losses are recognised at inception in the profit or loss.

##### (ii) Life investment contracts

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

#### (s) Claims expense

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

##### (i) Life insurance contracts

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

##### (ii) Life investment contracts

There is no claims expense in respect of investment contracts. Amounts paid to policyowners in respect of investment contracts are withdrawals and are recognised as a decrease in investment contract liabilities (see note 3(k)(ii)).

#### (t) Outwards reinsurance premium expense

Where portions of the policy are reinsured the ceded premiums are recognised in the profit or loss as outwards reinsurance premium expense.

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

#### (u) Basis of expense apportionment

Expenses are incurred in relation to the acquisition and maintenance of life insurance and life investment contracts, in addition to expenses incurred with respect to investment management and other administrative activities. Expenses have been apportioned in accordance with Division 2 of Part 6 of the Life Act as follows:

- (i) Expenses excluding investment management fees, which are directly identifiable, have been apportioned between policy acquisition and policy maintenance on the basis of the objective when incurring each expense, and the outcome achieved.
- (ii) Where allocation is not feasible between the disclosure categories, expenses have been allocated as maintenance expenses.
- (iii) Expenses which are directly attributable to an individual policy or product are allocated directly to the statutory fund within which the class of business to which that policy or product belongs.
- (iv) All indirect expenses charged to the profit or loss are equitably apportioned to each class of business.

The expense apportionment basis is in line with the principles set out in the Life Insurance Actuarial Standards Board Valuation Standard (APRA Prudential Standard LPS 1.04: Valuation of Policy Liabilities). Statistics such as policy counts, annual premiums, funds under management and claims payments are used to apportion the expenses to individual life insurance and life investment products.

### 3. Significant accounting policies (continued)

#### (v) Income tax

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. For life insurance business, income tax expense is determined after segregating the operations into classes of business which are taxed at different rates and on different bases according to the rules relating to each class.

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

The principal temporary differences arise from revaluation of certain assets and liabilities, including derivative contracts, and tax losses carried forward. The rates enacted or substantially enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. The tax effect of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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

#### (i) Tax consolidations

The Company is a wholly-owned subsidiary in a tax-consolidated group, with Suncorp-Metway Ltd as the head entity.

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

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

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

#### (ii) *The Tax Law Amendment (Taxation of Financial Arrangement) Act 2009 (TOFA legislation)*

The TOFA legislation was enacted during the prior year. It provides a framework for the taxation of financial arrangements, potentially providing closer alignment between tax and accounting requirements. The regime also includes comprehensive tax hedging rules that would allow the tax recognition of gains and losses on many hedging instruments to be matched to the accounting recognition of gains and losses of the underlying hedged items.

TOFA is mandatory for the Company for tax years beginning on or after 1 July 2010. There are specific transitional provisions in relation to the taxation of existing financial arrangements outstanding at the transition date (ie there is a choice to bring pre-commencement financial arrangements into the new regime subject to a balancing adjustment being calculated on transition to be returned over the next succeeding four tax years).

The head entity of tax consolidated group may make the election to bring pre-commencement financial arrangements into the new regime at any time on or before the first tax return lodgement date in the tax year beginning on or after 1 July 2010.

### 3. Significant accounting policies (continued)

#### (v) Income tax (continued)

The head entity has not yet determined the potential effect of the TOFA legislation although it is expected there will be no permanent tax adjustments arising. The head entity has determined that it will not bring pre-commencement financial arrangements into the TOFA regime and will adopt the default accruals / realisation tax-timing methodology.

#### (w) Goods and services tax

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

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

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

#### (x) Changes in accounting estimates and errors

##### (i) Changes in accounting estimates

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

##### (ii) Errors

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

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

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

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

### 4. Summary of significant actuarial methods and assumptions

#### Policy liabilities

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

The effective date of the actuarial report on policy liabilities and solvency reserves is 30 June 2010. The actuarial report was prepared by Mr Michael Lubke, Appointed Actuary BSc (Hons) FIAA, and indicates that the Appointed Actuary is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in this financial report, the *Life Act* and with the Prudential Standards issued by APRA.

Policy liabilities have been calculated in accordance with APRA Prudential Standard LPS 1.04 *Valuation of Policy Liabilities* issued under Section 230A(1) of the *Life Act*.

For life insurance contracts, the Prudential Standards require the policy liabilities to be calculated in a way which allows for the proper and timely release of profits over the life of the business, as services are provided to policyowners and premiums are received. For life investment contracts, the Prudential Standards require the policy liabilities to be calculated as the fair value of liabilities in accordance with accounting standards.

#### 4. Summary of significant actuarial methods and assumptions (continued)

##### Policy liabilities (continued)

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

Business Type	Method	Profit Carrier
<i>Individual</i>		
Conventional	Projection	Participating business – bonuses Non-participating business – expected claim payments
Investment account	Projection	Interest credits
Allocated pension	Projection	Interest credits
Lump sum risk	Projection	Expected claim payments (expected premiums for Trauma business)
Disability income	Projection	Expected claim payments
Annuity	Projection	Annuity payments
<i>Group</i>		
Investment account	Projection	Interest credits
Lump sum risk	Accumulation	-
Disability income	Accumulation	-

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

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

Assumption	Basis of assumption	Significant changes since 2009
Investment earnings	For participating business, assumed earning rates are determined having regard to the asset mix of the investment portfolio backing the benefits, the assumed earning rates for each sector, market conditions at the valuation date and tax on investment earnings appropriate to the class of business and asset sector. Pre-tax rates varied from 6.2% (2009: 6.9%) to 7.4% (2009: 7.4%).  All non-participating business uses an investment earnings and discount rate assumption of the risk-free rate. This has been determined from the government bond curve and varied (before tax) between 4.2% and 5.6% (2009: 3.0% and 6.0%).	No change in approach.
Maintenance expenses	Per policy expense rates are based upon expected costs to service existing contracts in the period following the reporting date. Expense rates vary by product line and class of business. Tax deductibility of expenses is allowed for at rates appropriate to the taxation basis of the business.	No change in approach.
Inflation	The inflation assumption is reviewed at each valuation. For this valuation 3.0%pa (2009: 3.0%pa) was assumed, taking into account the difference between long-term government bonds and indexed government bonds for Australia.	None.
Benefit indexation	Where future benefits increases in line with inflation, the Company has used an assumption of 3.0%pa (2009: 3.0%pa).	None.

#### 4. Summary of significant actuarial methods and assumptions (continued)

##### Policy liabilities (continued)

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

Assumption	Basis of assumption	Significant changes since 2009
Voluntary discontinuance	Rates are based upon recent internal investigations. Rates may vary by product, class of business, policy value, age and duration in force. Allowance is also made for cash withdrawals. Future long-term rates of discontinuance assumed vary between 4% and 25% (2009: between 2.5% and 30%).	Moderate increases for risk business and allocated pensions having regard to recent experience.
Surrender values	Surrender values are determined by applying the surrender bases current at the reporting date.	None.
Rates of taxation	The rates of taxation assumed are based on current income tax legislation applicable to the type of product.	None.
Mortality – individual risk products	Mortality rates for risk products have been determined using the standard mortality table (IA95-97) with adjustments for smoking status and also to allow for previous experience. Adjustments range from 70% (2009: 76%) to 170% (2009: 180%). Table IA95-97 was developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997.	Assumed rate of mortality for lump sum business has been reduced having regard to observed experience.
Mortality annuitants	– Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments, being 60% for males and 70% for females (2009: 55% and 65% for males and females respectively) and with assumed future age-related improvements (applied to the 60% and 70% factors from a base year of 1996). (2009: nil improvements). Tables IM/IF80 were developed by the Institute of Actuaries and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982.	Allowing for the application of assumed mortality improvements, expected annuitant mortality has been reduced currently and also prospectively given the allowance for future age-related improvement which has been made, consistent with industry practice
Morbidity – lump sum	Disability rates on lump sum Total and Permanent Disablement (TPD) policies have been based on industry and population experience with adjustments to reflect Suncorp Life & Superannuation Limited's experience.  For trauma policies, assumed incidence rates are based on Australian population statistics with adjustments to reflect Suncorp Life & Superannuation Limited's experience and policy conditions.	Assumed rate of TPD has been reduced having regard to observed experience, whilst assumed incidence for trauma has been increased.
Disability income	– Disability rates on income policies have been determined using the IAD89-93 table with adjustments to reflect Suncorp Life & Superannuation Limited's experience. IAD89-93 was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993.	Assumed rate of incidence has been reduced having regard to observed experience.
Future supportable bonuses and interest credits to participating policies	Future bonus rates and interest credits assumed are those supported by the policy liabilities and the assumed future experience, including allowance for the shareholder's right to participate in distributions. Using these rates the net present value of expected future cash flows equals the value of assets supporting the business.  For participating whole of life and endowment business, the Company's policy is to set bonus rates such that, over long periods, the returns to policyowners (as a group, but not necessarily individually) are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. For participating investment account business crediting rates are set such that over long periods policyowners (as a group, but not necessarily individually) receive full investment earnings on their accounts less a deduction of explicit fees and charges. Distributions are split between policyowners and shareholder with the valuation allowing for the shareholder to participate in distributions at the maximum allowable rate of 20%. In determining policyowner distributions consideration is given to equity between generations of policyowners and equity between the various classes and sizes of policies in force.	No change in approach.

**4. Summary of significant actuarial methods and assumptions (continued)**

**Policy liabilities (continued)**

*Other requirements*

The *Life Act* requires companies to meet prudential standards of solvency. The solvency requirements are determined in accordance with APRA Prudential Standard LPS 2.04 *Solvency Standard*, as required under the *Life Act*. For the purposes of note 29, minimum termination values have been determined in accordance with APRA Prudential Standards LPS 4.02 *Minimum Surrender Values and Paid Up Values* and LPS 2.04.

*Sensitivity analysis – insurance contracts*

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

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

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



4. Summary of significant actuarial methods and assumptions (continued)

**Policy liabilities (continued)**

Sensitivity analysis – insurance contracts (continued)

The table below illustrates how changes in key assumptions would impact the current period reported profit, equity and policy liabilities at 30 June 2010 of the Company. The change in liability and profit/(loss) are shown net and gross of reinsurance.

Variable	Change	Change in insurance contract liabilities before tax		Profit/(loss) after tax	
		(net)	(gross)	(net)	(gross)
		\$m	\$m	\$m	\$m
Maintenance expenses	+ 10% increase	0.1	0.1	(0.1)	(0.1)
Mortality and lump sum morbidity	+ 10% increase	(0.2)	0.6	(0.4)	0.1
Morbidity – disability income	+ 10% increase in incidence and decrease in recovery rates	0.1	0.1	(0.1)	(0.1)
Discontinuance rates	+ 10% increase	-	-	-	-

**Notes**

- (1) Sensitivity changes are relative to current best estimate assumptions.  
(2) Change in profit/(loss) after tax is the same as change in equity.

The table below illustrates the effects of changes in actuarial assumptions from 30 June 2009 to 30 June 2010.

Assumption Category	Effect on future profit margins (shareholder) increase/(decrease)		Effect on policy liabilities increase/(decrease)	
	\$m	\$m	\$m	\$m
Discount and earning rate (risk business)	-	-	(7.1)	-
Discount and earning rate (participating business)	(0.6)	-	-	-
Mortality and morbidity	29.7	-	3.1	-
Lapse and surrender rates	(8.5)	-	-	-
Maintenance expenses	5.5	-	-	-
Other changes	2.5	-	-	-

**Notes**

- (1) Effects for risk business are shown gross of tax (the changes in the components of policy liability note are net of tax).

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

## 5. Risk management and financial instruments

A structured risk management framework is in place throughout the Suncorp Group ("the Group"), outlining risk governance frameworks, policies, processes and practices which govern the monitoring, management, control and reporting of the Group's universe of risks. Annually, the Framework is reviewed, updated and approved by the Board Risk Committee.

The universe of risks managed by the Group includes strategic, compliance, credit, market, balance sheet, liquidity, insurance and operational risk. Policies, procedures, limits and other controls are in place either at the Group or Line of Business level to manage these risks and align them with the Group's risk appetite.

The role of the Board Risk Committee is to oversight the adequacy and effectiveness of the risk management frameworks and processes within the Group. The Board Risk Committee has delegated authority from the full Board to approve and oversee the processes used to identify, evaluate and manage risk. At its discretion, the Board Risk Committee may make recommendations to the Board, including recommendations on the Group's risk appetite.

The Senior Leadership Team of the Group, consisting of the Group Chief Executive Officer and all Group Executives, provide executive oversight and direction-setting across the Group's internal control environment and the Group's risk management framework. Within risk parameters set by the Board, the Senior Leadership Team approves principles, policies, limits, frameworks and processes used by the Group to identify, assess, monitor and control/mitigate risk.

Management within the Company has the primary responsibility and accountability for embedding the risk management framework within their business operations and also reports on risk and control effectiveness to executive management or the Board Risk Committee. Chief Risk Officers, with formal lines of accountability to both their CEO and the Group CRO, have been appointed for the Company in order to create greater ownership, understanding and awareness of risk.

The key risks addressed by the risk management framework are:

- Credit risk – the risk that a borrower or counterparty will not meet its obligations in accordance with agreed terms. Credit risk arises as a result of receivables due from policyowners and intermediaries, the placement of reinsurance programs with counterparties and investment in financial instruments.
- Market risk – the risk of unfavourable changes in interest rates, foreign exchange rates, equity prices, credit spreads, market volatilities and liquidity. Market risk arises from the risk of adverse movements in interest rates, foreign exchange rates, equity prices, credit spreads and prices of other financial contracts including derivatives.
- Balance sheet risk – the risk to earning and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term. Balance sheet risk arises from the structure and characteristics of assets and liabilities and in the mismatch of in their repricing dates.
- Liquidity risk – the risk that the Company will be unable to service its cash flow obligations today or in the future. Liquidity risk arises from the requirement to make claim payments in a timely manner.
- Insurance risk – the risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, concentration risk, reserving, claims management or reinsurance management. Insurance risk arises due to risks relating to the uncertainty of cash flows from insurance contracts.
- Operational risk – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. These include internal and external fraud, system failure, natural disasters, business interruption, risks associated with business practices, vendors, suppliers, service providers, employment practices and workplace safety.
- Compliance risk – the risk of legal or regulatory sanctions, financial loss or reputational damage the Company may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and good practice standards.

## 5. Risk management and financial instruments (continued)

- Strategic risk – the risk of loss arising from uncertainty about future operating environment, including reputation, industry, economic and regulatory environment, branding, crisis management, alliances and suppliers. Strategic risks relate to the Company's business strategy and tactical initiatives that are articulated in business plans.

Risk management maturity has been enhanced within the Group throughout the year, with permanent appointments to the positions of Group Chief Risk Officer, General Insurance Chief Risk Officer and Group Chief Investment Officer. The risk framework has been further developed with the continued evolution of risk appetite and stress testing.

The Company has an approved Risk Management Strategy which describes the risk management framework and identifies the policies, procedures and controls that the Company has in place to meet the requirements of the life prudential standard (LPS 220 Risk Management) as issued by APRA. The risk management framework manages risk including insurance, credit, market and liquidity risks. The framework meets the risk policy of the Suncorp Group and is consistent with the Australian Standard on Risk Management (AS 4360).

The life company Board has established a Life Insurance Asset and Liability Committee ("Life ALCO"). The role of the Life ALCO is to establish, manage and enforce an effective Life asset and liability risk framework that optimises the long-term returns achieved by the Life asset portfolio within the risk appetite or parameters established by the life company Board.

The Company has an approved Risk Management Statement which has been accepted by APRA as appropriate guidelines for the investment of the Company's funds including the use of derivatives. More detailed discussion on this is contained in note 6.

The Company has a shareholder fund and two statutory funds, being a Capital Guaranteed Fund and an Investment Linked Fund. Within the Capital Guaranteed Fund (CGF), prior to 1 July 2010 there were four sub-funds: Life Capital Guaranteed Funds No's 1 and 4, and Superannuation Capital Guaranteed No's 1 and 4.

Under a project to simplify and consolidate the Group's financial reporting infrastructure SLSL's general ledger system has been converted to Oracle (the single target platform for the Suncorp Group), effective from 1 July 2010. As part of this move to a single general ledger, the opportunity has also been taken to restructure the investment portfolios within the statutory funds to provide greater transparency and efficiency in the management of the company's assets and liabilities.

The CGF now has 9 core portfolios, with non participating and participating business separated and with participating portfolios varying by each backing a different type of business (effectively split by participating class and investment strategy). Within the Investment Linked Fund there are 18 portfolios. Each of the portfolios has an investment mandate.

**5. Risk management and financial instruments (continued)**

***Insurance risk***

*Risk management objectives and policies for mitigating insurance risk*

Procedures are in place to control and mitigate insurance risks faced by the Company and vary according to the nature of the risk.

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

Insurance risks are controlled principally through adherence to underwriting procedures, adequate premium rates and sufficient reinsurance arrangements. In relation to premium rates and reinsurance arrangements, the Company receives advice from the Appointed Actuary, in accordance with APRA Prudential Standard LPS 310 and from 1 July 2010, LPS 320. Controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

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

*Underwriting procedures*

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

*Solvency*

Solvency requirements established by APRA Prudential Standards are in place to reinforce safeguards for policyowners' interests, being primarily the ability to meet future claims payments. The solvency requirement establishes the required value of the insurers' assets (at a statutory fund level), having regard to the amount and nature of its liabilities, each element being determined in accordance with the applicable valuation rules. Assets above this requirement must be maintained throughout the period, not just at the period end.

## 5. Risk management and financial instruments (continued)

### **Insurance risk (continued)**

#### *Terms and conditions of insurance business*

The nature and terms of the insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend.

The table provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance and investment contracts issued by the Company depend.

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting the timing and uncertainty of future cash flows
Long-term non-participating insurance contracts with fixed and guaranteed terms (Term Life and Disability)	Guaranteed benefits paid on death, ill health or maturity which are fixed and are not at the discretion of the issuer.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, lapses, expenses and market earning rates on the assets backing the liabilities.
Conventional life insurance contracts with discretionary participating benefits (Endowment and Whole of Life)	These policies combine life insurance and savings. The policyowner pays a regular premium and receives the specified sum assured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on surrender, death or maturity.	Operating profit arising from these contracts is allocated 80:20 between the policyowners and shareholders in accordance with the <i>Life Act</i> . The amount allocated to policyowners is held as an unvested policy liability until it is distributed to specific policyowners as bonuses.	Mortality, surrenders, expenses and market earning rates on the assets backing the liabilities.
Investment account contracts with discretionary participating features	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is guaranteed. Operating profit arising from these contracts is allocated between the policyowners and shareholders in accordance with the <i>Life Act</i> . The amount allocated to policyowners is held as an unvested policy liability until it is distributed to specific policyowners as interest credits.	Surrenders, expenses and market earning rates on the assets backing the liabilities.
Unit Linked Investment Contracts	The gross value of premiums received is invested in units and the policyowner investment account is the value of the units. Investment management fees are deducted from policyowners annually based on the average value of funds under management.	The investment return is equal to the earnings on assets backing the investment contracts less any applicable management fees.	Market risk, expenses and withdrawals.
Lifetime annuity	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of guaranteed regular income is set at inception of the policy, including any indexation.	Longevity, expenses and market earning rates on assets backing liabilities.

## 5. Risk management and financial instruments (continued)

### **Insurance risk (continued)**

#### *Claims management*

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

#### *Concentrations of insurance risk*

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

Exposure to risk of large claims for individual lives is managed through the use of surplus reinsurance arrangements whereby the Company's maximum exposure to any individual life is capped.

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

The Company's group life portfolio includes an industry fund that offers death and TPD protection to employers, some with large workforces. Although a 33% (2009: 33%) quota share arrangement is in place for this policy, the concentration of such workforces in single locations remains a factor that exposes the Company to a higher risk of loss in the event of an accident affecting the location where the insured employees work. The Company examines its exposure to such employers on a case by case basis to ascertain the need for 'catastrophe' excess of loss reinsurance.

A product pricing and re-rating process ensures that any cross subsidies between insurance rates for groups of policyowners of different sex and age are minimised such that profitability is not materially impacted by changes to the age and sex profile of the in-force business.

#### *Methods to limit or transfer life insurance risk exposures*

##### (i) Ceding of risk and reinsurance security

Suncorp Life & Superannuation Limited cedes to specialist reinsurance companies a proportion of its portfolio or certain types of insurance risk. This serves primarily to reduce the net liability on large risks (related to either an individual or group exposure), obtain greater diversification of insurance risks and provide protection against large losses. The reinsurers have strong Standard & Poor's credit ratings from AA+ to A+. The Company reviews its reinsurance management strategy annually, with the strategy approved by the Board Risk Committee.

### **Credit risk**

Credit risk arises as a result of placement of reinsurance programs with counterparties and investments in financial instruments.

Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same counterparty or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

In the management of their investment portfolios, the Company uses financial instruments dealt on recognised exchanges and over the counter contracts. The counterparties to over the counter contracts are limited to companies with primarily investment grade credit ratings from a recognised credit rating agency and are normally banks operating in Australia. Over-concentration of credit risk with respect to reinsurance is minimised by placement of cover with a number of reinsurers with strong credit ratings.

The Company does not expect any counterparties to fail to meet their obligations given their high credit ratings and therefore does not require collateral or other security to support credit risk exposures.

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

The following tables provide information regarding the aggregate credit risk exposure of the Company at the balance date in respect of the major classes of financial assets. The analysis classifies the assets according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as non-investment grade.

**5. Risk management and financial instruments (continued)**

**Credit risk (continued)**

	Credit Rating						Investment Linked Business Not Rated <sup>(1)</sup>	Total \$m
	AAA \$m	AA \$m	A \$m	BBB \$m	Non investment grade \$m	Other Not Rated \$m		
<b>2010</b>								
Cash and cash equivalents	-	14.1	12.3	-	-	4.5	311.2	342.1
Interest bearing financial assets at fair value through profit or loss	633.0	381.7	217.4	11.7	-	110.6	293.2	1,647.6
Loans, advances and other receivables	-	0.1	-	-	-	84.0	27.8	111.9
Gross policy liabilities ceded under reinsurance	-	51.1	41.7	-	-	-	-	92.8
Derivative financial instruments	-	-	7.6	-	-	-	-	7.6
	<b>633.0</b>	<b>447.0</b>	<b>279.0</b>	<b>11.7</b>	<b>-</b>	<b>199.1</b>	<b>632.2</b>	<b>2,202.0</b>
<b>2009</b>								
Cash and cash equivalents	-	14.8	150.0	-	-	-	1.8	166.6
Interest bearing financial assets at fair value through profit or loss	696.0	408.1	338.3	11.9	-	115.4	298.4	1,868.1
Loans, advances and other receivables	0.8	1.2	28.5	-	-	54.5	27.5	112.5
Gross policy liabilities ceded under reinsurance	24.2	24.4	35.7	-	-	-	-	84.3
Derivative financial instruments	-	-	0.3	-	-	-	-	0.3
	<b>721.0</b>	<b>448.5</b>	<b>552.8</b>	<b>11.9</b>	<b>-</b>	<b>169.9</b>	<b>327.7</b>	<b>2,231.8</b>

**Notes**

(1) For investment linked business, the liability to policyowners is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures, except for derivatives. The fair value of derivatives shown on the balance sheet represents the current risk exposure, but not the maximum risk exposure. The face value and fair value of derivatives are illustrated in note 6.

**5. Risk management and financial instruments (continued)**

***Credit risk (continued)***

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of those that are past due but not impaired at the balance date. An amount is considered to be past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis. For investment linked business, the liability to policyowners is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets and the table below does not include any financial assets backing investment linked business.

	<u>Past due but not impaired</u>						Total \$m
	Neither past due nor impaired \$m					Impaired \$m	
	0-3 mths \$m	3-6 mths \$m	6-12 mths \$m	>12 mths \$m			
<b>2010</b>							
Premiums outstanding	-	12.1					12.1
Investment revenue receivable	0.2						0.2
Investment settlements	57.3						57.3
Reinsurance recoveries receivable	4.3	6.5	0.1				10.9
Gross policy liabilities ceded under reinsurance	92.8						92.8
Other	17.4						17.4
	172.0	18.6	0.1				190.7
<b>2009</b>							
Premiums outstanding	-	12.2					12.2
Investment revenue receivable	41.0						41.0
Investment settlements	0.2						0.2
Reinsurance recoveries receivable	3.4	5.0	0.8				9.2
Gross policy liabilities ceded under reinsurance	84.3						84.3
Other	38.1				0.2		38.3
	167.0	17.2	0.8		0.2		185.2



## 5. Risk management and financial instruments (continued)

### **Market risk**

Market risk in the life insurance business arises from mismatches between asset returns and guaranteed liability returns, adverse movements in market prices affecting fee income on investment linked policies and from returns obtained from the investment of shareholders' capital held in the life company.

Management of market risk is most critical for products which involve the investment of significant amounts of money to meet future liabilities and where the returns on those assets either accrue to the shareholder or are not necessarily able to be passed on to policyowners in a timely manner. This includes, for example, assets backing disability income reserves for open claims and participating business.

For some non-participating insurance products, such as unit linked products, market risks are passed on to the policyowner, although as noted, the shareholder's fee revenue may be adversely affected by market falls.

As discussed above, solvency margin requirements established by APRA are in place to reinforce safeguards for policyowners' interests, which are primarily the ability to meet future claims payments to policyowners.

The Company maintains a level of capital adequacy in accordance with APRA Prudential Standards.

The management of the risks associated with investments undertaken by life statutory funds and the shareholder fund, including market risks, is subject to the relevant regulatory requirements, which are governed by the *Life Act*.

### **Interest rate risk**

Interest rate risk arises from the investments in interest-bearing securities. Any change in fair value of investments in interest-bearing securities is immediately reflected in the profit or loss in accordance with the accounting policies discussed in note 3(e).

Interest rate risk arises in respect of financial assets held in the shareholders' fund and the life statutory funds over liabilities. This is combined with an economic mismatch between the timing of payments to life insurance and life investment contract holders and the duration of the assets held in the statutory funds to back these liabilities. Where the liability to the investment contract holder is directly linked to the value of assets held to back that liability there is no residual interest rate exposure to the shareholder. Accordingly, investment linked business is excluded from the analysis below.

The sensitivity of profit and loss after tax and equity reserves to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the reporting date and there are concurrent movements in interest rates and parallel shifts in the yield curves. The risks faced for deriving sensitivity information did not change from the previous period. Given the significant volatility experienced in the market during the last year, a movement of 200 basis points (2009: 200 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

**5. Risk management and financial instruments (continued)**

**Market risk (continued)**

*Interest rate risk (continued)*

	2010				2009			
	Exposure at Jun-10 \$m	Movement in variable %	Profit (loss) after tax <sup>(1)</sup> \$m	Equity \$m	Exposure at Jun-09 \$m	Movement in variable %	Profit (loss) after tax <sup>(1)</sup> \$m	Equity \$m
Interest bearing investment assets	297.9	+2	(10.4)	-	289.9	+2	(12.9)	-
		-2	10.4	-		-2	12.9	-
Loans and advances	14.1	+2	0.2	-	13.8	+2	0.2	-
		-2	(0.2)	-		-2	(0.2)	-
Derivative financial instruments	7.6	+2	(0.2)	-	0.3	+2	0.0	-
		-2	0.2	-		-2	(0.0)	-

**Notes**

(1) After tax impact on profit/(loss) using corporate tax rate of 30%. Actual after tax impact for life insurance business may differ.

The reporting date measurement of the cash and cash equivalents is not sensitive to movements in interest rates and so a change in interest rates at reporting date would have had no impact on either profit or equity from the measurement of cash and cash equivalents for the current financial year.

Interest-bearing investment securities are recognised in the statement of financial position at fair value. Movements in market interest rates impact the price of the securities (and hence their fair value measurement) and so would impact profit.

*Foreign exchange risk*

The statutory funds of the Company invest in overseas assets. In the Investment Linked Fund any investment returns, whether positive or negative, are passed on to the policyowners. Various guarantees are provided by the Capital Guaranteed Fund, principally in relation to capital and declared interest. The statutory funds maintain reserves in accordance with APRA Prudential Standards to meet the risk associated with diminution of value associated with foreign exchange risk.

The Company invests a portion of investment assets in global equities, primarily through the Suncorp Investment Management World Equities Trust. The foreign currency exposure is managed by entering into forward foreign exchange and futures contracts. Trusts that the Company invests in including the Suncorp Investment Management Global Macro Trust and the Suncorp Investment Management World Equities Trust enter into forward foreign exchange and futures contracts to provide capital appreciation.

The Company's exposure to foreign currency risk at balance date is shown in the sensitivity analysis below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

5. Risk management and financial instruments (continued)

**Market risk (continued)**

*Foreign exchange risk (continued)*

	2010				2009			
	Exposure	Movement	Profit	Equity	Exposure	Movement	Profit	Equity
	at Jun-10	in variable	(loss) after		at Jun-09	in variable	(loss) after	
	\$m	%	tax <sup>(1)</sup>	\$m	\$m	%	tax <sup>(1)</sup>	\$m
Euro	37.4	+10	2.4	-	36.3	+10	2.3	-
		-10	(2.9)	-		-10	(2.5)	-
GBP	18.5	+10	1.2	-	17.4	+10	1.1	-
		-10	(1.4)	-		-10	(1.2)	-
JPY	25.9	+10	1.6	-	22.1	+10	1.4	-
		-10	(2.0)	-		-10	(1.5)	-
USD	118.0	+10	6.8	-	92.3	+10	5.7	-
		-10	(10.0)	-		-10	(6.2)	-
Other	0.5	+10	(0.0)	-	-	+10	-	-
		-10	0.0	-	-	-10	-	-

1. After tax impact on profit/(loss) using corporate rate of 30%. Actual after tax impact for Life insurance business may differ.

**Notes**

(1) After tax impact on profit/(loss) using corporate tax rate of 30%. Actual after tax impact for life insurance business may differ.

*Other market risks*

In addition to cash and interest-bearing securities, the investment portfolios contain exposures to equity and property markets. The investment mandates, while providing higher returns, must also consider the volatility of investment returns and the impact of volatility on both the capital adequacy and profitability of the business. In accordance with the accounting policy discussed in note 3(e), these investments are measured at fair value at each balance date and changes in fair value are immediately reflected in the profit or loss. These principles also apply to investments through unitised vehicles.

Downturns in equity markets would impact the future results of the Company. During the current financial year the Company reduced its Australian and international equities portfolios. Equity risk is managed by incorporating a diverse holding of Australian and overseas companies (whether direct or through unitised vehicles) and through the controlled use of derivative financial instruments, as discussed in note 6.

The potential impact of movements in the market value of listed entities at balance date on the consolidated entity's profit after tax and equity reserves is shown in the sensitivity analysis below. The price risk in relation to unlisted securities is immaterial in terms of the possible impact on profit or loss and has not been included in the sensitivity analysis. Given the significant volatility experienced in the equity markets during the last year, a movement of 25 per cent (2009: 25 per cent) is considered reasonably possible and has been applied to the sensitivity analysis. Where the liability to the investment contract holder is directly linked to the value of the asset held to back that liability there is no residual price risk exposure to the shareholder. Accordingly, investment linked business has not been included in the analysis.

## 5. Risk management and financial instruments (continued)

### Market risk (continued)

#### Other market risks (continued)

	2010				2009			
	Exposure at Jun-10 \$m	Movement in variable %	Profit (loss) after tax <sup>(1)</sup> \$m	Equity \$m	Exposure at Jun-09 \$m	Movement in variable %	Profit (loss) after tax <sup>(1)</sup> \$m	Equity \$m
Australian equities	586.0	+25	102.6		588.0	+25	102.9	-
	(586.0)	-25	(102.6)		(588.0)	-25	(102.9)	-
International equities	271.0	+25	47.4		236.5	+25	41.4	-
	(271.0)	-25	(47.4)		(236.5)	-25	(41.4)	-

#### Notes

(1) After tax impact on profit/(loss) using corporate tax rate of 30%. Actual after tax impact for life insurance business may differ.

### Liquidity risk

The ability to make claims payments in a timely manner is critical to the business of life insurance.

The investment portfolio mandates require that sufficient cash deposits are available to meet day-to-day obligations. This combined with premiums received provides substantial liquidity to meet claims payments and associated expenses as they arise. Consequently, there is greater flexibility in investment strategies while managing investments to provide sufficient liquidity to meet the claims as they become due, based on actuarial assessments.

The tables below and on the following page summarise the maturity profile of financial liabilities of the Company based on the remaining undiscounted contractual obligations. It also includes the maturity profile for insurance and investment contract policy liabilities determined based on the discounted estimated timing of net cash outflows.

	Carrying amount \$m	1 year or less \$m	1 to 5 years \$m	Over 5 years \$m	No term \$m	Investment Linked <sup>(1)</sup> \$m	Total cash flows \$m
	<b>2010</b>						
Amounts due to reinsurers	5.1	5.1	-	-	-	-	5.1
Trade creditors and accrued expenses	36.7	36.7	-	-	-	-	36.7
Investment settlements	0.5	0.5	-	-	-	-	0.5
Deposits and short term borrowings	18.2	18.2	-	-	-	-	18.2
Policy claims in process of settlement	19.5	19.5	-	-	-	-	19.5
Premium in advance	3.2	3.2	-	-	-	-	3.2
Insurance contract policy liabilities <sup>(2)</sup>	1,690.7	208.7	650.9	831.1	-	-	1,690.7
Investment contract policy liabilities	1,527.0	3.1	-	-	-	1,523.9	1,527.0
Unvested policy owner benefits	386.5	-	-	-	386.5	-	386.5
	<b>3,687.4</b>	<b>295.0</b>	<b>650.9</b>	<b>831.1</b>	<b>386.5</b>	<b>1,523.9</b>	<b>3,687.4</b>
<b>2009</b>							
Policy claims in process of settlement	17.6	17.6	-	-	-	-	17.6
Amounts due to reinsurers	8.5	8.5	-	-	-	-	8.5
Trade creditors and accrued expenses	36.6	36.5	-	-	-	0.1	36.6
Deposits and short term borrowings	30.7	30.7	-	-	-	-	30.7
Interest rate swap and futures - net settled	0.2	0.2	-	-	-	-	0.2
Other	0.6	-	-	-	-	0.6	0.6
Insurance contract policy liabilities <sup>(2)</sup>	1,820.0	355.7	641.0	823.3	-	-	1,820.0
Investment contract policy liabilities	1,400.2	3.9	-	-	-	1,396.3	1,400.2
Unvested policy owner benefits	380.3	-	-	-	380.3	-	380.3
	<b>3,694.7</b>	<b>453.1</b>	<b>641.0</b>	<b>823.3</b>	<b>380.3</b>	<b>1,397.0</b>	<b>3,694.7</b>

#### Notes

(1) For investment linked business the liability to policyowners is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any risk in those assets. Therefore the tables in this section show the policyowner liability separately without any maturity profile analysis.

(2) This table shows the estimated timing of future net cash outflows resulting from insurance contract liabilities. This includes estimated future surrenders, death/disability claims and maturity benefits, offset by expected future premiums or contributions and reinsurance recoveries. All values are discounted to the current date using the assumed future investment earning rate for each product.

**5. Risk management and financial instruments (continued)**

**Fair value hierarchy**

The fair value of financial assets and liabilities equal the carrying amounts shown in the statement of financial position. The table below analyses financial instruments carried at fair value by valuation method. The different levels have been identified as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical financial instruments
- **Level 2** - inputs other than quoted prices included within Level 1 that are observable for the financial instruments, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- **Level 3** - inputs for the financial instruments that are not based on observable market data (unobservable inputs). The classification of investment securities within Level 3 of the fair value hierarchy is based on the relative trading discount to face value for interest bearing securities.

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>30 June 2010</b>				
Financial assets designated at fair value through profit or loss	1,145.0	2,424.5	3.0	3,572.5
Derivative financial assets	-	7.6	-	7.6
	1,145.0	2,432.1	3.0	3,580.1
Life investment contract liabilities	-	(1,527.0)	-	(1,527.0)
	1,145.0	905.1	3.0	2,053.1

There have been no transfers in either direction (level 1 to level 2 and vice versa) during the year ended 30 June 2010.

The movements in Level 3 of the fair value hierarchy during the financial year are as follows:

<b>Financial assets</b>	Investment Securities \$m	Derivative financial assets \$m
Balance at the beginning of the financial year	98.6	
Total gains or losses included in profit or loss for:		
Life insurance investment (loss) revenue	2.0	-
Transfers out of level 3	(72.3)	-
Purchases	14.3	-
Sales	(39.6)	-
Balance at the end of the financial year	3.0	-

Although the Group believes that its fair value estimates are appropriate, changing the assumptions to reasonably possible alternatives would result in material changes to fair value. For fair value measurements in Level 3 of the fair value hierarchy, changing one or more of the inputs that are not based on observable market data would have no significant effects.

## 6. Derivative financial instruments

### **Risk Management Statement**

The Risk Management Statement, approved by the Board and issued pursuant to the requirements of APRA, establishes the basis on which derivative financial instruments may be used within the investment portfolios. The preparation and enforcement of the statement is a critical requirement for licensed life insurers. The Risk Management Statement forms the basis of the discussion in this note on derivative financial instruments.

### **Definition**

A derivative financial instrument is defined as a financial contract whose value depends on or is derived from assets, liabilities, or indexes (the underlying asset). Derivatives include a wide assortment of instruments such as forwards, futures, options, share ratios, warrant, swaps and other composites. These instruments may be traded on recognised exchanges or directly between counterparties.

### **Objectives**

The Company sees the use of derivatives as consistent with the objectives of the overall investment strategies of the investment portfolios, and one of the means by which these strategies are implemented. Derivatives will only be used for the reasons of efficiency, arbitrage and risk reduction.

### **Limits on derivative usage**

The Risk Management Statement and investment mandates prohibit the use of derivatives for speculative purposes or for leveraged trading. Leverage is here defined as creating a portfolio which would have sensitivity to an underlying economic or financial variable which is greater than could be achieved using only physical securities.

To prevent derivatives being used as a source of gearing all derivatives have to be wholly or partly cash covered depending on the type of risk undertaken. Derivative restrictions are designed to either prevent gearing or to cover unrealised and potential losses on all derivatives to guard against potential liquidity shortfalls.

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

An independent Risk Manager is responsible for monitoring these positions to ensure they do not exceed the authorities established in the investment mandate. Regular monitoring and review of controls relating to these activities is the responsibility of the Board Risk Committee and the Internal Audit division.

### **Activities**

Derivatives are used for position management purposes. Interest rate derivatives are a cost effective way to acquire the desired duration, curve or sector positioning for the investments backing the liabilities. Equity futures and options are used in a similar way for equity exposures, and foreign exchange derivatives are used to manage any foreign exchange risks.

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

Where the probability of exercising an option is less than one, a difference arises between notional principal and face value. For the years ended 2009 and 2010, notional principal amounts are equal to face value due to the absence of options in the investment portfolio. However, in future periods options may form part of the investment portfolio resulting in a difference between notional principal and face value amounts.

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

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

6. Derivative financial instruments (continued)

**Activities (continued)**

Derivative financial instruments are measured at fair value. Changes in fair value are reflected in the income statements. The face values and fair values of the Company's derivative financial instruments at balance date are as follows:

	<b>Notional Principal Amount</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$m</b>	<b>\$m</b>
Less than one year	375.2	215.1
	<u>375.2</u>	<u>215.1</u>
	<b>Face value</b>	<b>Fair value</b>
	<b>\$m</b>	<b>\$m</b>
<b>2010</b>		
<i>Exchange rate related contracts</i>		
Forward exchange contracts	226.8	7.0
<i>Interest rate related contracts</i>		
Interest rate swaps	142.0	2.8
Interest rate futures	(28.8)	0.1
<i>Equity contracts</i>		
Equity futures	35.2	(2.3)
	<u>375.2</u>	<u>7.6</u>
<b>2009</b>		
<i>Exchange rate related contracts</i>		
Forward exchange contracts	168.1	0.7
<i>Interest rate related contracts</i>		
Interest rate futures	(0.2)	0.1
<i>Equity contracts</i>		
Equity futures	47.2	(0.5)
	<u>215.1</u>	<u>0.3</u>

**7. Premiums**

	2010 \$m	2009 \$m
Direct premiums	548.4	714.6
Direct consideration for deferred annuities - rollover amounts	-	0.9
policy conversions	1,708.8	320.0
Total premium received or receivable	2,257.2	1,035.5
Premiums recognised as a deposit or change in policy liabilities (note 21(b),(c))	(2,045.2)	(815.0)
Total premium revenue	212.0	220.5

Total revenue for the period was \$251.5 million (2009: \$254.1 million). This consists of insurance contract premium revenue of \$212.0 million (2009: \$220.5 million) and reinsurance recoveries revenue of \$39.5 million (2009: \$33.6 million).

**8. Investment revenue**

	2010 \$m	2009 \$m
Interest, dividend and similar revenue and (losses) sourced from:		
equity securities	46.2	170.7
debt securities	115.0	54.8
property	5.6	7.4
other	0.7	(1.6)
	167.5	231.3
Investment gains and (losses) sourced from:		
equity securities	97.2	(428.8)
debt securities	64.5	(1.6)
property	18.7	(101.2)
other	14.5	(48.1)
	194.9	(579.7)
Total investment income	362.4	(348.4)



**9. Revenue from operating activities**

	2010 \$m	2009 \$m
<b>Revenue</b>		
Premium revenue (note 7)	212.0	220.5
Investment revenue including realised and unrealised gains and losses:		
Equity	143.4	(258.1)
Debt	179.5	53.2
Property	24.3	(93.8)
Other net investment revenue including realised and unrealised gains and (losses)	15.2	(49.7)
Total investment revenue (note 8)	362.4	(348.4)
Fees	26.4	32.5
Deferred fees written back (note 35)	12.9	-
Total fee revenue	39.3	32.5
Profit on sale of management rights (note 35)	13.8	-
Commissions	-	1.2
Total other revenue	53.1	33.7
Reinsurance recoveries	39.5	33.6
Total revenue	667.0	(60.6)

**10. Claims**

	2010 \$m	2009 \$m
Death and disability claims	(141.2)	(125.9)
Maturities	(52.9)	(133.6)
Annuities	(77.2)	(58.2)
Surrenders and terminations	(467.9)	(673.2)
Policy conversions	(1,708.8)	(320.2)
	(2,448.0)	(1,311.1)
Claims recognised as a change in gross policy liabilities (note 21(b),(c))	2,282.2	1,165.3
Total claims expense	(165.8)	(145.8)
Interim & terminal bonuses paid, included in total claims paid or payable	(4.3)	(2.1)

## 11. Operating expenses

	2010 \$m	2009 \$m
Policy acquisition expenses:		
commission	(5.0)	(9.5)
other	(6.9)	(14.2)
Policy maintenance expenses:		
commission	(5.5)	(7.1)
other	(39.1)	(54.4)
Acquisition cost written-off (note 35)	(29.3)	-
Amortisation charged to income statement	(3.7)	(7.0)
Investment management expenses	(10.3)	(12.8)
Total administration expenses - life insurance activities	(99.8)	(105.0)
Amortisation of non-life deferred acquisition costs	(1.9)	(2.5)
Administration expenses - non-life insurance activities	-	(0.1)
	<u>(101.7)</u>	<u>(107.6)</u>

## 12. Operating results

	2010 \$m	2009 \$m
Profit from operating activities before income tax expense has been arrived at after charging the following items:		
Employee expenses	(7.7)	(7.4)
Total employee expenses	<u>(7.7)</u>	<u>(7.4)</u>
Occupancy costs		
Office rental	(0.6)	(4.5)
Other	(3.2)	(2.2)
Total occupancy costs	<u>(3.8)</u>	<u>(6.7)</u>
Other expenses		
Communications	(2.6)	(3.3)
Technology	(5.2)	(5.1)
Financial	(8.1)	(9.9)
Marketing	(6.8)	(5.6)
Client service charges	(2.4)	(0.5)
Intra group expenses	(16.4)	(37.4)
Other	(1.2)	(1.8)
Total other	<u>(42.7)</u>	<u>(63.6)</u>

All employees of Suncorp Life & Superannuation Limited are employed by a related entity and these associated costs along with other related expenses are recharged to the Company through intragroup expenses.

**13. Taxation**

(a) **Income tax expense**

	2010 \$m	2009 \$m
<b>Recognised in the profit or loss</b>		
<b>Current tax expense</b>		
Current year	20.7	8.6
Adjustments for prior years	0.9	1.6
	<u>21.6</u>	<u>10.2</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	18.7	(50.9)
Total income tax (credit) expense	<u>40.3</u>	<u>(40.7)</u>
<b>Numerical reconciliation between income tax expense and pre-tax net profit</b>		
<b>Profit before tax</b>	98.5	23.6
Income tax using the domestic corporation rate of 30%	29.5	7.1
Increase in income tax expense due to:		
Intercompany dividend elimination	-	(3.2)
Income tax offsets and credits	(0.1)	(0.1)
Other	11.0	(44.3)
	<u>40.4</u>	<u>(40.5)</u>
Under (over) provision in prior years	(0.1)	(0.2)
<b>Income tax expense (credit) on pre-tax net profit</b>	<u>40.3</u>	<u>(40.7)</u>

Income tax expense (credit) includes an amount of (\$40.2) million (2009: (\$41.2) million) attributable to the life insurance company statutory funds. The income tax expense is partly determined on a product basis and partly determined on a profit basis. The income tax expense has been determined after aggregating various classes of business, each with different tax rates. The rates of taxation applicable to the taxable income of significant classes of business are as follows:

Class of business	2010 %	2009 %
Complying superannuation business <sup>(1)</sup>	15	15
Ordinary class of business	30	30
Shareholder funds	30	30
Annuity and pension business <sup>(2)</sup>	Exempt	Exempt

**Notes**

(1) Includes Virtual Pooled Superannuation Trust (VPST)

(2) Segregated Exempt Assets (SEA)

**13. Taxation (continued)**

**(a) Income tax expense (continued)**

***Basis of income tax apportionment***

A notional income tax expense is calculated for each product as if the product was invested within a stand-alone statutory fund. The difference between this and the actual tax expense is apportioned to products having regard to their contribution to the difference.

**(b) Current tax liabilities**

In accordance with the tax consolidation legislation, Suncorp-Metway Ltd as the head entity of the Australian tax-consolidated group has assumed the current tax liability initially recognised by the members of the tax-consolidated group.

**(c) Deferred tax assets and liabilities**

	Assets		Liabilities		Net	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
<b>Company</b>						
Intangible assets	-	-	1.8	12.3	(1.8)	(12.3)
Other investments	15.6	40.6	-	-	15.6	40.6
Deferred revenue	-	4.3	-	-	-	4.3
Other	1.3	1.2	-	-	1.3	1.2
Tax assets/(liabilities)	16.9	46.1	1.8	12.3	15.1	33.8
Set off of tax	(1.8)	(12.3)	(1.8)	(12.3)	-	-
Tax assets/(liabilities)	15.1	33.8	-	-	15.1	33.8

**(d) Tax consolidation**

Suncorp-Metway Ltd and its wholly-owned Australian controlled entities elected to form a tax-consolidated group from 1 July 2002. The accounting policy in relation to tax consolidation legislation and its application to the Company is set out in note 3(u).

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

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

**14. Cash and cash equivalents**

	2010 \$m	2009 \$m
Cash at bank	152.4	36.8
Other money market placements	189.7	129.8
	342.1	166.6

**15. Other financial assets**

	2010 \$m	2009 \$m
Equity security investments		
Directly held	-	18.0
Unit trusts	1,684.9	1,460.2
Investment in associated entities	-	0.1
Total equities	1,684.9	1,478.3
Debt security investments		
Interest bearing securities		
private sector	2.9	161.7
Loans and advances:		
loans on policies	5.0	5.0
non-forfeiture loans	9.1	8.8
Unit trusts	1,652.3	1,706.7
Total debt	1,669.3	1,882.2
Property investments		
Unit trusts	218.9	157.1
Total property	218.9	157.1
Other investments	7.0	165.7
Total other financial assets	3,580.1	3,683.3
Current	2,595.6	2,695.3
Non current	984.5	988.0
	3,580.1	3,683.3

**16. Receivables**

	2010 \$m	2009 \$m
Owing from related parties		
- tax related	4.7	3.8
- other	10.7	26.6
	15.4	30.4
Reinsurance recoveries receivable	10.9	9.2
Investment income accrued	57.5	41.2
Other debtors	1.9	5.7
	85.7	86.5
Expected to be realised within 12 months	85.4	84.1
Expected to be realised in more than 12 months	0.3	2.4
	85.7	86.5

**17. Deferred acquisition costs**

	2010 \$m	2009 \$m
Deferred acquisition costs at beginning of financial year	41.0	50.5
Acquisition costs deferred	1.9	7.9
Acquisition costs written-off (note 35)	(29.3)	-
Amortisation charged to income statement	(7.5)	(17.4)
Deferred acquisition costs at end of financial year	6.1	41.0
Expected to be realised within 12 months	2.2	15.2
Expected to be realised in more than 12 months	3.9	25.8
	6.1	41.0

**18. Other assets**

	2010 \$m	2009 \$m
Accrued interest	-	2.1
Other	0.1	0.1
	0.1	2.2
Expected to be realised within 12 months	0.1	2.2
	0.1	2.2

**19. Payables**

	2010 \$m	2009 \$m
Policy claims in process of settlement	19.5	17.6
Reinsurance premium payable	5.1	8.5
Sundry creditors and accrued expenses	14.5	12.3
Deferred service fees	0.5	14.3
Owing to related parties		
- tax related	8.5	8.4
- others	13.7	2.4
	<u>61.8</u>	<u>63.5</u>
Expected to be settled within 12 months	61.5	53.6
Expected to be settled in more than 12 months	0.3	9.9
	<u>61.8</u>	<u>63.5</u>

**20. Deposits and short term borrowings**

	2010 \$m	2009 \$m
Unsecured		
ultimate parent entity	17.6	30.1
controlled entities of the ultimate parent entity	0.6	0.6
	<u>18.2</u>	<u>30.7</u>
Expected to be settled within 12 months	18.2	30.7
Expected to be settled in more than 12 months	-	-
	<u>18.2</u>	<u>30.7</u>

**21. Policy liabilities**

	2010 \$m	2009 \$m
<b>(a) Policy liabilities</b>		
Gross policy liabilities	3,310.5	3,304.5
Gross policy liabilities ceded under reinsurance	(92.8)	(84.3)
Net policy liabilities	<u>3,217.7</u>	<u>3,220.2</u>
Expected to be realised within 12 months	442.4	410.4
Expected to be realised in more than 12 months	2,868.1	2,894.1
	<u>3,310.5</u>	<u>3,304.5</u>
<b>(b) Life insurance contract policy liabilities</b>		
Gross policy liabilities at the beginning of the year	1,904.3	2,553.2
Insurance premiums recognised as a change in gross policy liabilities (Note 7)	573.5	430.9
Claims expense recognised as a change in gross policy liabilities (Note 10)	(801.4)	(805.9)
Increase (Decrease) in life insurance contract policy liabilities reflected in the income statement	107.1	(273.9)
(Decrease) in gross policy liabilities	(120.8)	(648.9)
Gross policy liabilities at the end of the year	<u>1,783.5</u>	<u>1,904.3</u>
<b>(c) Life investment contract policy liabilities</b>		
Gross policy liabilities at the beginning of the year	1,400.2	1,591.0
Life investment contract contributions recognised in policy liabilities (Note 7)	1,471.7	384.1
Life investment contract withdrawals recognised in policy liabilities (Note 10)	(1,480.8)	(359.4)
Fee expense recognised as change in policy liabilities	(12.7)	(27.2)
Increase (Decrease) in life investment contract policy liabilities reflected in the income statement	148.6	(188.3)
Increase (Decrease) in gross policy liabilities	126.8	(190.8)
Gross policy liabilities at the end of the year	<u>1,527.0</u>	<u>1,400.2</u>
<b>(d) Gross policy liabilities ceded</b>		
Gross policy liabilities ceded at the beginning of the year	84.3	78.1
Increase in gross policy liabilities ceded	8.5	6.2
Gross policy liabilities ceded at the end of the year	<u>92.8</u>	<u>84.3</u>
Expected to be realised within 12 months	22.8	4.0
Expected to be realised in more than 12 months	70.0	80.3
	<u>92.8</u>	<u>84.3</u>
<b>(e) Unvested policyowner benefits liability</b>		
Unvested policyowner benefits at the beginning of the year	380.3	296.9
Increase in unvested policyowner benefits	6.2	83.4
Unvested policyowner benefits at the end of the year	<u>386.5</u>	<u>380.3</u>



**21. Policy liabilities (continued)**

	Current Basis <sup>(5)</sup>		Previous
	2010	2009	Basis <sup>(4)</sup>
	\$m	\$m	2010
			\$m
<b>(f) Components of net policy liabilities - insurance contracts</b>			
Best estimate liability			
Value of future policy benefits <sup>(1)</sup>	2,160.8	2,405.2	2,210.4
Value of future expenses	203.3	219.6	209.9
Value of unrecouped acquisition expenses	(181.8)	(172.9)	(181.8)
Balance of future premiums	(1,288.6)	(1,310.4)	(1,309.6)
<b>Total best estimate liability</b>	<b>893.7</b>	<b>1,141.5</b>	<b>928.9</b>
Value of future profits			
Policy owner bonuses <sup>(2)</sup>	460.4	437.3	452.5
Shareholder profit margins	263.1	227.4	234.5
<b>Total value of future profits</b>	<b>723.5</b>	<b>664.7</b>	<b>687.0</b>
Total value of declared bonuses <sup>(3)</sup>	73.5	13.8	73.5
<b>Total net policy liabilities</b>	<b>1,690.7</b>	<b>1,820.0</b>	<b>1,689.4</b>

**Notes**

- (1) Future policy benefits include bonuses credited to policyowners in prior periods but exclude current period bonuses (as set out in the income statements) and future bonuses (as set out in (2)). Where business is valued by other than projection techniques, future policy benefits includes the account balance.
- (2) Future bonuses exclude current period bonuses.
- (3) Current year declared bonuses valued in accordance with the Actuarial Standard.
- (4) Using the actuarial methods and assumptions relevant at the previous reporting date, but on current in force business.
- (5) Using the actuarial methods and assumptions relevant at the current reporting date on current in force business.

**Capital guarantees**

Included in life insurance contract liabilities are amounts in respect of contracts with discretionary participation features. The amount of policy liabilities that relates to the guaranteed element of these contracts is \$1,118 million (2009: \$1,230 million).

**Amounts expected to be recovered or settled no more than 12 months after the reporting date**

For the majority of the investment contract and life insurance contract liabilities, there is no fixed settlement date. Settlement amounts are based on Suncorp Life & Superannuation Limited's assumptions as to likely withdrawal patterns in the various product groups.

**22. Share capital**

**(a) Share capital**

	<b>2010</b>	<b>2009</b>
	<b>\$m</b>	<b>\$m</b>
Issued and paid up capital		
38,902,529 ordinary shares, each fully paid (2009: 39,000,000)	38.9	39.0
	38.9	39.0

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

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

	<b>2010</b>	<b>2009</b>
	<b>\$m</b>	<b>\$m</b>
Balance brought forward	39.0	39.0
Capital redemption	(0.1)	-
Balance at the end of the year	38.9	39.0

Under section 23(1) of the *Life Act*, the company is required at all times to have an adjusted paid up share capital of at least \$10.0 million or higher amount as specified by the regulators. Following on from a legal entity structure, there was a capital reduction of 97,471 (\$0.1million) ordinary shares.

**(b) Capital management**

The capital management strategy of the Suncorp Group is to optimise shareholder value by managing the level, mix and use of capital resources. The main objectives are to support the Suncorp Group's credit rating, ensure sufficient capital resources to maintain the business and operational requirements, retain sufficient capital to exceed externally imposed capital requirements, and ensure the Suncorp Group's ability to continue as a going concern. The Suncorp Group's capital policy is to hold surplus capital (over and above the Company's target surplus) in Suncorp-Metway Limited as it is the holding company of the Suncorp Group.

The Company's capital management strategy forms part of the Suncorp Group plan that uses both internal and external measures of capital.

The Company is subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the policy liabilities, investments and reinsurance assets held in the statement of financial position. The Company holds a target surplus of capital in excess of the prescribed minimum. Where capital falls below this target surplus, the Company undertakes one or more actions in accordance with its target surplus policy to improve the capital position. In addition to the tests required by regulatory standards, sensitivity tests are performed at least annually to ascertain the ability of the statutory funds to withstand various adverse scenarios.

The solvency requirements and ratios in respect of those requirements for the life insurance business are set out in note 29.

The Company has at all times during the current and prior financial year complied with these capital requirements.

There were changes in the Company's approach to capital management during the year with a new target surplus policy implemented.

Other than the abovementioned requirement imposed, being a life insurance business operating in Australia, the Company is not subject to any other externally imposed capital requirements.

## 23. Dividends

	2010 \$m	2009 \$m
Ordinary shares		
Final dividend 2009 \$nil (2008: 0.179) per fully paid share	-	(7.0)
Interim dividend 2010 \$0.179 (2009: \$0.191) per fully paid share	(7.0)	(7.4)
Interim dividend 2010 \$0.461 (2009: \$nil) per fully paid share	(18.0)	-
Interim dividend 2010 \$0.177 (2009: \$nil) per fully paid share	(6.9)	-
	<b>(31.9)</b>	<b>(14.4)</b>

### Franking credits

The company does not have any franking credits available to shareholders for subsequent financial years. On 1 July 2002, the company adopted the tax consolidations legislation which requires a tax-consolidated group to keep a single franking account. Accordingly all franking credits are recognised in Suncorp-Metway Ltd as the head entity of the tax-consolidated group.

## 24. Reconciliation of cash flows from operating activities

	2010 \$m	2009 \$m
Profit for the year	58.2	64.3
<b>Classified as investing activities</b>		
Changes in net market value of investments realised and unrealised (note 8):		
equity securities	(97.2)	428.8
debt securities	(64.5)	1.6
property securities	(18.7)	101.2
other securities	(14.5)	48.1
<b>Change in assets and liabilities</b>		
<i>Decrease (increase) in:</i>		
Insurance and other recoveries receivable	(1.7)	(4.4)
Premiums outstanding	0.1	0.5
Interest receivable	(7.2)	5.2
Equity receivables	(6.8)	8.9
Property income receivable	0.7	(1.0)
Investment income receivables	11.0	(5.7)
Deferred acquisition costs	21.0	9.5
Other debtors	3.8	(0.3)
<i>Increase (decrease) in:</i>		
Net movement in tax balances	23.6	(82.6)
Premiums in advance	-	(0.1)
Claims outstanding	1.9	(3.9)
Reinsurance premiums paid	(3.4)	3.6
Policy liabilities (net)	(2.5)	(839.7)
Policy owner retained profits	6.2	83.4
Deferred service fee income	(13.8)	0.2
Other payables	11.4	4.0
Other liabilities	0.5	(17.4)
<b>Net cash (outflow) from operating activities</b>	<b>(91.9)</b>	<b>(195.8)</b>

**25. Auditors' remuneration**

	2010 \$	2009 \$
<b>Audit services</b>		
<b>Auditors of the Company</b>		
<i>KPMG Australia</i>		
Audit of financial reports	257,900	257,900
<b>Other services</b>		
<b>Auditors of the Company</b>		
<i>KPMG Australia</i>		
Other assurance services	54,100	63,000
	312,000	320,900

Fees for services rendered by the entity's auditor in relation to the statutory audit are borne by a related company.

**26. Contingent assets and liabilities**

**(a) Contingent assets**

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

*Litigation*

The Company is making a claim for payments made to a third party for which the likely success of the claim is considered probable. In the directors' opinion, disclosure of any further information about the above matter would be prejudicial to the interests of the Company.

**(b) Contingent liabilities**

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

Details of contingent liabilities for which no provisions are included in these financial reports are as follows:

*Derivative instruments*

In the ordinary course of business, the Company enters into various types of investment contracts, including derivative positions, that can give rise to contingent liabilities. It is not expected that any significant liability will arise from these types of transactions as any losses or gains are offset by corresponding gains or losses on the underlying exposures.

**26. Contingent assets and liabilities (continued)**

**(b) Contingent liabilities (continued)**

*Tax consolidation*

The Company is a member of a tax-consolidated group, and is jointly and severally liable for the income tax obligations of that group in the event that the head entity of the group defaults in its payment obligations to the Australian Tax Office. The tax sharing agreements have effect to limit this joint and several liabilities to an amount relative to its contribution to group profit. The head entity has not been in default of its payment obligations and the directors are of the opinion that the probability of default is remote.

*Litigation*

The Company has been advised of a potential claim by a third party for which a likely settlement by the Company is not considered remote. The directors do not expect the outcome of any such claim to have a material effect on the Company's financial position and, in the directors' opinion, disclosure of any further information about the above matter would be prejudicial to the interests of the Company.

**27. Summary of shareholder's interests**

	Statutory Funds		Shareholder Fund		Total	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
<b>Operating profit after income tax</b>	57.8	52.5	0.4	11.8	58.2	64.3
Shareholder's retained profits at the beginning of the financial year	279.4	213.6	9.3	25.2	288.7	238.8
Transfers of profits between funds	(47.4)	13.3	47.4	(13.3)	-	-
Dividends paid	-	-	(31.9)	(14.4)	(31.9)	(14.4)
<b>Shareholder's retained profits at the end of the financial year</b>	<b>289.8</b>	<b>279.4</b>	<b>25.2</b>	<b>9.3</b>	<b>315.0</b>	<b>288.7</b>
Share capital (note 22)	-	-	38.9	39.0	38.9	39.0
Capital transfers to statutory funds	29.8	29.8	(29.8)	(29.8)	-	-
<b>Total shareholder's equity (note 33(d),(e))</b>	<b>319.6</b>	<b>309.2</b>	<b>34.3</b>	<b>18.5</b>	<b>353.9</b>	<b>327.7</b>
<i>Components of shareholder's interests in statutory funds:</i>						
Shareholder's retained profits - participating business	96.6	95.1				
Shareholder's retained profits - non-participating business	193.2	184.3				
Shareholder's capital	29.8	29.8				
	<b>319.6</b>	<b>309.2</b>				

Shareholders' access to the retained profits and shareholder's capital in the statutory funds is restricted to the extent that these monies are required to meet Solvency and Capital Adequacy Standards under the *Life Act*.

**28. Reconciliation to *Life Act* operating profits and retained profit of statutory funds**

**(a) Allocation of operating profit**

The general principles adopted in the allocation of operating profit to participating policyowners and the shareholder, which are in accordance with the *Life Act* and the Company's Articles of Association, are as follows:

*Participating business*

All profits, including net investment returns on policyowners' retained profits and shareholder participating retained profits are allocated 80 percent to policyowners and 20 percent to the shareholder.

*Non-participating business*

All profits, including net investment returns on shareholder capital and shareholder non-participating retained profits, are allocated to the shareholder.

**(b) Distribution of retained profits**

The general principles adopted in the distribution of retained profits to participating policyowners and the shareholder in accordance with the requirements in Section 62 of the *Life Act* are as follows:

Shareholder's retained profits in a statutory fund may be transferred to the shareholder fund subject to the statutory fund's capital requirements being maintained and the shareholder's retained profits from participating business being at least 25 percent of policyowners' retained profits.

Distributions of profits to participating policyowners are made in the form relevant to the type of policy. Conventional business profits are distributed by way of reversionary and terminal bonuses and investment account business profits are distributed by way of crediting interest to policyowners.

Bonuses and interest credits for individual product lines are determined by the Company on the principle of the equitable treatment of participating policyowners.

**(c) Details of operating profits**

	Policyowners' interests		Shareholder's interests		Total Statutory Funds	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Operating profit after income tax	-	-	57.8	52.5	57.8	52.5
Bonuses provided for or paid in the current period:						
interim & terminal bonus on claims paid	4.3	2.1	-	-	4.3	2.1
declared bonus on in force policies	73.5	13.8	-	-	73.5	13.8
Increase in policyowner retained profits	6.2	83.4	-	-	6.2	83.4
<b>Life Act operating profit after income tax</b>	<b>84.0</b>	<b>99.3</b>	<b>57.8</b>	<b>52.5</b>	<b>141.8</b>	<b>151.8</b>
<i>Sources of the operating profit:</i>						
From non-investment linked business:						
participating business	84.0	99.3	21.0	24.9	105.0	124.2
non-participating business	-	-	31.0	26.0	31.0	26.0
From investment linked business:						
non-participating business	-	-	5.8	1.6	5.8	1.6
	<b>84.0</b>	<b>99.3</b>	<b>57.8</b>	<b>52.5</b>	<b>141.8</b>	<b>151.8</b>

28. Reconciliation to *Life Act* operating profits and retained profit of statutory funds  
(continued)

(d) Details of retained profits

	Policyowners' interests		Shareholder's interests		Total Statutory Funds	
	2010	2009	2010	2009	2010	2009
	\$m	\$m	\$m	\$m	\$m	\$m
Retained profits at the beginning of the financial year	-	-	279.4	213.6	279.4	213.6
Liability for unvested policyowner benefits (note 21(e))	380.3	296.9	-	-	380.3	296.9
<b>Life Act retained profits at the beginning of the financial year</b>	<b>380.3</b>	<b>296.9</b>	<b>279.4</b>	<b>213.6</b>	<b>659.7</b>	<b>510.5</b>
Life Act operating profit after income tax	84.0	99.3	57.8	52.5	141.8	151.8
Transfer (to)/from shareholder's fund from participating business (note 27)	-	-	(47.4)	13.3	(47.4)	13.3
Provision for bonuses to participating policyowners	(77.8)	(15.9)	-	-	(77.8)	(15.9)
<b>Life Act retained profits at the end of the financial year</b>	<b>386.5</b>	<b>380.3</b>	<b>289.8</b>	<b>279.4</b>	<b>676.3</b>	<b>659.7</b>
Policyowner retained profits at the end of the financial year	(386.5)	(380.3)	-	-	(386.5)	(380.3)
<b>Retained profits at the end of the financial year</b>	<b>-</b>	<b>-</b>	<b>289.8</b>	<b>279.4</b>	<b>289.8</b>	<b>279.4</b>
<i>Components of Life Act retained profits at the end of the financial year:</i>						
Policyowners' interests	386.5	380.3	-	-	386.5	380.3
Shareholder's interests in participating business	-	-	96.6	95.1	96.6	95.1
Shareholder's interests in non-participating business	-	-	193.2	184.3	193.2	184.3
	<b>386.5</b>	<b>380.3</b>	<b>289.8</b>	<b>279.4</b>	<b>676.3</b>	<b>659.7</b>

## 29. Solvency requirements of the statutory funds

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

For Australia, the methodology and bases for determining solvency requirements are in accordance with LPS 2.04 *Solvency Standard*, as required under the *Life Act*. For the purposes of note 29, minimum termination values have been determined in accordance with APRA Prudential Standard LPS 4.02 *Minimum Surrender Values and Paid Up Values* and APRA Prudential Standard LPS 2.04 *Solvency Standard*.

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

	Statutory Fund No.1		Statutory Fund No.2		Total Statutory Funds	
	2010	2009	2010	2009	2010	2009
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Solvency requirement</b>						
Minimum termination value	1,820.5	1,979.2	1,524.9	1,394.5	3,345.4	3,373.7
Gross policy liabilities ceded under reinsurance	92.8	84.3	-	-	92.8	84.3
Other liabilities	77.3	61.8	9.5	15.5	86.8	77.3
Solvency reserve	212.2	186.0	5.2	14.5	217.4	200.5
<b>Solvency requirement</b>	<b>2,202.8</b>	<b>2,311.3</b>	<b>1,539.6</b>	<b>1,424.5</b>	<b>3,742.4</b>	<b>3,735.8</b>
<b>Assets available for solvency reserve</b>						
Surplus or deficit (if any) of net policy liabilities relative to net minimum termination value	(126.7)	(155.2)	(1.0)	1.7	(127.7)	(153.5)
Net assets	292.8	269.2	26.8	40.0	319.6	309.2
Liability for policyowner retained profits at the end of financial year	386.5	380.3	-	-	386.5	380.3
	<b>552.6</b>	<b>494.3</b>	<b>25.8</b>	<b>41.7</b>	<b>578.4</b>	<b>536.0</b>
Solvency reserve %	11.2%	9.1%	0.3%	1.0%	6.3%	5.8%
Coverage of solvency reserve (times)	2.6	2.7	5.0	2.9	2.7	2.7

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



30. Statement of sources of operating profit

	Life Insurance Contracts 2010 \$m	Investment Linked Contracts 2010 \$m	Other Life Investment Contracts 2010 \$m	Total 2010 \$m	Total 2009 \$m
<b>Life Act shareholder's profit in the statutory funds</b>					
The shareholder's operating profit after income tax in the statutory funds is represented by:					
Investment earnings on shareholder's retained profits and capital	17.1	2.9		20.0	(12.3)
Emergence of shareholder's planned profits	23.2	-	-	23.2	35.7
Experience profit (loss)	13.1	-	(0.1)	13.0	27.4
(Losses capitalised)/Reversal of capitalised loss	(1.3)	-	-	(1.3)	-
Management services profit	-	2.9	-	2.9	1.7
<b>Life Act shareholder's operating profit after income tax</b>	<b>52.1</b>	<b>5.8</b>	<b>(0.1)</b>	<b>57.8</b>	<b>52.5</b>
<b>Cumulative losses carried forward at the end of the financial year</b>	<b>1.8</b>	<b>-</b>	<b>-</b>	<b>1.8</b>	<b>1.4</b>
<b>Life Act policyowners' operating profit in the statutory funds</b>					
The Life Act policyowners' operating profit after income tax in the statutory funds is represented by:					
Investment earnings on retained profits	21.5	-	-	21.5	(11.5)
Emergence of policyowner planned profits	57.0	-	-	57.0	109.7
Experience profit/(loss)	5.5	-	-	5.5	1.1
<b>Life Act policyowners' operating profit after income tax</b>	<b>84.0</b>	<b>-</b>	<b>-</b>	<b>84.0</b>	<b>99.3</b>

31. Asset restrictions, managed assets and trustee activities

**Restrictions on assets**

Investments held in the life insurance statutory funds can only be used within the restrictions imposed under the *Life Act* and the constitution of the Company. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions. Participating policyowners can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements are met.

**Trustee activities**

During the financial year Suncorp Portfolio Services Ltd, a related party of the Company, acted as licensed trustee in relation to various superannuation policies issued by the Company. The activities of Suncorp Portfolio Services Ltd are managed separately from the operations of the Company.

In the prior financial year Suncorp Superannuation Pty Ltd, a subsidiary of the Company, acted as licensed trustee in relation to various superannuation policies issued by the Company. Throughout the prior financial year arrangements were in place to ensure that the activities of Suncorp Superannuation Pty Ltd were managed separately from the life operations of the Company.

**32. Segment information**

The economic entity operates principally in the life insurance industry in Australia.

**33. Statutory funds segment information**

**(a) Statutory funds information**

Details of the separate statutory funds established to account for the different types of life insurance business written by the Company are as follows:

Types of Policies Written	Major Products	
<i>No. 1 Statutory Fund</i>		
Fully or partially capital guaranteed, ordinary and superannuation business	Individual:	Whole of Life, Endowment, Term Life, Investment Account, Trauma, Disability
	Group:	Group Life, Managed Fund
	Annuities:	Immediate, Deferred
<i>No. 2 Statutory Fund</i>		
Investment linked ordinary and superannuation business	Individual:	Investment linked products
	Group:	Investment linked products
	Annuities:	Investment linked: Deferred

All policies written and major products are offered within Australia only.

33. **Statutory funds segment information (continued)**

(b) Abbreviated statement of comprehensive income at fund and category level for the year ended 30 June 2010

2010	Non-Investment Linked		Investment Linked		Total Statutory Funds \$m	Shareholder Fund \$m	Total \$m
	Statutory Fund No 1 \$m	Statutory Fund No 2 \$m	Statutory Fund No 2 \$m	Statutory Fund No 1 \$m			
Premium revenue	212.0	-	-	-	212.0	-	212.0
Outwards reinsurance expense	(47.6)	-	-	-	(47.6)	-	(47.6)
Investment revenue	164.4	-	-	-	164.4	-	164.4
Other revenue	198.4	162.5	-	1.5	360.9	1.5	362.4
Total revenue	14.3	27.8	-	11.0	42.1	11.0	53.1
	377.1	190.3	-	12.5	567.4	12.5	579.9
Claims expense	(165.8)	-	-	-	(165.8)	-	(165.8)
Reinsurance recoveries	39.5	-	-	-	39.5	-	39.5
Operating expenses	(126.3)	-	-	-	(126.3)	-	(126.3)
	(57.3)	(32.4)	-	(12.0)	(89.7)	(12.0)	(101.7)
Increase in net insurance contract liabilities	(98.6)	-	-	-	(98.6)	-	(98.6)
Decrease (increase) in investment contract liabilities	0.8	(149.4)	-	-	(148.6)	-	(148.6)
Increase in policy owner retained profits	(6.2)	-	-	-	(6.2)	-	(6.2)
Total operating expenses	(287.6)	(181.8)	-	(12.0)	(469.4)	(12.0)	(481.4)
<b>Operating profit (loss) before income tax</b>	89.5	8.5	-	0.5	98.0	0.5	98.5
Income tax expense	(37.8)	(2.4)	-	(0.1)	(40.2)	(0.1)	(40.3)
<b>Profit from ordinary activities after income tax</b>	51.7	6.1	-	0.4	57.8	0.4	58.2

**33. Statutory funds segment information (continued)**

(c) Abbreviated statement of comprehensive income at fund and category level for the year ended 30 June 2009

2009	Non-Investment Linked		Investment Linked		Total Statutory Funds \$m	Shareholder Fund		Total \$m
	Statutory Fund No 1 \$m	Statutory Fund No 2 \$m	Statutory Fund No 2 \$m	Statutory Fund No 2 \$m		Shareholder Fund \$m	Shareholder Fund \$m	
Premium revenue	217.9	2.6	220.5	-	220.5	-	-	220.5
Outwards reinsurance expense	(47.4)	-	(47.4)	-	(47.4)	-	-	(47.4)
	170.5	2.6	173.1	-	173.1	-	-	173.1
Investment revenue	(168.2)	(188.8)	(357.0)	8.6	(348.4)	8.6	-	(348.4)
Other revenue	13.8	0.1	13.9	19.8	33.7	19.8	-	33.7
Total revenue	16.1	(186.1)	(170.0)	28.4	(141.6)	28.4	-	(141.6)
Claims expense	(145.8)	-	(145.8)	-	(145.8)	-	-	(145.8)
Reinsurance recoveries	33.6	-	33.6	-	33.6	-	-	33.6
	(112.2)	-	(112.2)	-	(112.2)	-	-	(112.2)
Operating expenses	(67.3)	(24.2)	(91.5)	(16.1)	(107.6)	(16.1)	-	(107.6)
Increase in net insurance contract liabilities	280.1	-	280.1	-	280.1	-	-	280.1
Increase in investment contract liabilities	(0.3)	188.6	188.3	-	188.3	-	-	188.3
(Decrease) in policy owner retained profits	(83.4)	-	(83.4)	-	(83.4)	-	-	(83.4)
Total operating expenses	16.9	164.4	181.3	(16.1)	165.2	(16.1)	-	165.2
<b>Operating profit (loss) before income tax</b>	33.0	(21.7)	11.3	12.3	23.6	12.3	-	23.6
Income tax expense	17.9	23.3	41.2	(0.5)	40.7	(0.5)	-	40.7
<b>Profit from ordinary activities after income tax</b>	50.9	1.6	52.5	11.8	64.3	11.8	-	64.3

**33. Statutory funds segment information (continued)**

(d) Abbreviated statement of financial position at fund and category level for the year ended 30 June 2010

2010	Non-Investment		Investment		Total	Shareholder	Total
	Linked	Statutory	Linked	Statutory			
	Fund No 1	Fund No 2	Fund No 1	Fund No 2	Funds	Fund	\$m
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Investment assets	2,356.8	1,208.6	1,208.6	3,565.4	14.7	3,580.1	
<b>Total other financial assets</b>	<b>2,356.8</b>	<b>1,208.6</b>	<b>1,208.6</b>	<b>3,565.4</b>	<b>14.7</b>	<b>3,580.1</b>	
Gross policy liabilities ceded under reinsurance	92.8	-	-	92.8	-	92.8	
Cash and cash equivalents	29.5	311.2	340.7	1.4	1.4	342.1	
Other assets	44.6	40.4	85.0	34.1	34.1	119.1	
<b>TOTAL ASSETS</b>	<b>2,523.7</b>	<b>1,560.2</b>	<b>4,083.9</b>	<b>50.2</b>	<b>4,134.1</b>		
Gross policy liabilities	1,786.6	1,523.9	3,310.5	-	-	3,310.5	
Policy owner retained profits	386.5	-	386.5	-	-	386.5	
Other liabilities	57.8	9.5	67.3	15.9	15.9	83.2	
<b>TOTAL LIABILITIES</b>	<b>2,230.9</b>	<b>1,533.4</b>	<b>3,764.3</b>	<b>15.9</b>	<b>3,780.2</b>		
<b>NET ASSETS</b>	<b>292.8</b>	<b>26.8</b>	<b>319.6</b>	<b>34.3</b>	<b>353.9</b>		
Share capital	-	-	-	38.9	38.9	38.9	
Capital transfers	5.2	24.6	29.8	(29.8)	(29.8)	-	
Retained profits	287.6	2.2	289.8	25.2	25.2	315.0	
<b>TOTAL EQUITY</b>	<b>292.8</b>	<b>26.8</b>	<b>319.6</b>	<b>34.3</b>	<b>353.9</b>		

33. Statutory funds segment information (continued)

(e) Abbreviated statement of financial position at fund and category level for the year ended 30 June 2009

2009	Non-Investment Linked Statutory \$m	Investment Linked \$m	Total Statutory \$m	Shareholder Fund \$m	Total \$m
Investment assets	2,341.0	1,334.3	3,675.3	8.0	3,683.3
<b>Total other financial assets</b>	<b>2,341.0</b>	<b>1,334.3</b>	<b>3,675.3</b>	<b>8.0</b>	<b>3,683.3</b>
Gross policy liabilities ceded under reinsurance	84.3	-	84.3	-	84.3
Cash and cash equivalents	87.4	66.3	153.7	12.9	166.6
Other assets	95.4	62.5	157.9	17.8	175.7
<b>TOTAL ASSETS</b>	<b>2,608.1</b>	<b>1,463.1</b>	<b>4,071.2</b>	<b>38.7</b>	<b>4,109.9</b>
Gross policy liabilities	1,908.3	1,396.2	3,304.5	-	3,304.5
Policy owner retained profits	380.3	-	380.3	-	380.3
Other liabilities	61.8	12.8	74.6	22.8	97.4
<b>TOTAL LIABILITIES</b>	<b>2,350.4</b>	<b>1,409.0</b>	<b>3,759.4</b>	<b>22.8</b>	<b>3,782.2</b>
<b>NET ASSETS</b>	<b>269.2</b>	<b>40.0</b>	<b>309.2</b>	<b>18.5</b>	<b>327.7</b>
Share capital	-	-	-	39.0	39.0
Capital transfers	5.2	24.6	29.8	(29.8)	-
Retained profits	264.0	15.4	279.4	9.3	288.7
<b>TOTAL EQUITY</b>	<b>269.2</b>	<b>40.0</b>	<b>309.2</b>	<b>18.5</b>	<b>327.7</b>

**34. Controlled entities**

	Country of Incorporation	Class of Share	2010 %	2009 %
<b>Subsidiaries</b>				
SIP Super Pty Ltd	Australia	Ordinary	-	100
Suncorp Financial Services Pty Ltd	Australia	Ordinary	-	100
Suncorp Superannuation Pty Ltd	Australia	Ordinary	-	100

On 1 October 2009, the Suncorp Group rearranged the legal entity structure for all of the Suncorp Group's life businesses. Accordingly the Company sold certain of its subsidiaries to entities within the group at its net carrying value. Subsequent to the sale, the Company reduced its share capital by redeeming ordinary shares (Note 22).

**Managed investment schemes**

The Company deems control to exist where it owns at least 50% of the issued units in managed investment schemes. The Company had recognised control for the following during the year ended 30 June 2009 and control continues to be recognised:

	2010 %	2009 %
Suncorp Investment Management Global Macro Tactical Asset Allocation Trust	89	89
Suncorp Investment Management Property Securities Trust	79	71
Suncorp Investment Management Australian Equities Trust	89	86
Suncorp Investment Management Australian Fixed Interest Trust	87	87
Suncorp Investment Management World Equities Trust	74	68
Suncorp Investment Management Australian Cash Trust	92	97
Suncorp Investment Management World Fixed Interest Trust	92	95
Controlled entities of Suncorp Investment Management World Fixed Interest Trust		
- Suncorp Investment Management Mortgage Backed Trust	88	92
Suncorp Investment Management Imputation Trust	56	53

The financial statements of the Company are separate financial statements. Consolidated financial statements have not been prepared as the Company has no publicly traded debt or equity instruments and its ultimate parent entity prepares consolidated financial statements for public use.

**35. Related parties**

**(a) Key management personnel compensation**

Key management personnel ("KMP") compensation is provided by the ultimate parent company, Suncorp-Metway Ltd (non-executive directors) and a related party of the ultimate parent company (executive directors and executives). The total of this compensation is as follows:

	2010 \$	2009 \$
Short-term employee benefits	17,730,527	11,203,105
Long-term employee benefits	1,060,071	-
Post-employment benefits	850,239	873,202
Termination benefits	4,868,330	3,470,454
Equity compensation benefits	5,869,121	9,988,117
	30,378,288	25,534,878

The ultimate parent entity has determined the compensation of KMPs in accordance with their roles within the entire Suncorp-Metway Ltd Group. Employee service contracts do not include any compensation, including bonuses, specifically related to the role of KMP of the Company and to allocate a figure may in fact be misleading. There is no link between KMP compensation and the financial results of the Company. Therefore, as there is no reasonable basis for allocating a KMP compensation amount to the Company, the entire compensation of the KMPs has been disclosed above.

***Other key management personnel transactions***

Transactions with directors and executives are conducted on arm's length terms and conditions, and are deemed trivial or domestic in nature. These transactions are in the nature of personal investment and life insurance policies.

Apart from the details disclosed in this note, no director, executive or their related parties has entered into a material contract with the Company during the reporting period, and there were no material contracts involving directors or a director related entity subsisting at the end of the reporting period.

***Identity of related parties***

The Company has related party relationships with its subsidiaries (see below), its key management personnel (refer to disclosures for key management personnel on preceding pages) and other entities within the wholly-owned group (which consists of Suncorp-Metway Ltd and its wholly-owned subsidiaries). The immediate parent entity and the ultimate parent entity in the wholly-owned group is Suncorp-Metway Ltd.

***Other related parties***

***Key management personnel related parties***

A number of key management personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with the other related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

Mr Martin D E Kriewaldt (who resigned as a Director on 16 April 2010) 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 Suncorp Group. These services are provided under normal terms and conditions.



**Suncorp Life & Superannuation Limited**  
**Notes to the financial statements (continued)**

*for the year ended 30 June 2010*

**35. Related parties (continued)**

***Other related party transactions***

Transactions between the Company and related parties in the wholly-owned group consisted of advances made and repaid, dividends received and paid, insurance premiums received and paid, fees received and paid for administrative, property and portfolio management services and interest received and paid. All these transactions were on a normal commercial basis except that some advances may be interest free.

The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:

	2010 \$	2009 \$
Distribution fee income:		
Suncorp Financial Services Limited	(1,358,445)	(1,312,561)
	<u>(1,358,445)</u>	<u>(1,312,561)</u>
Management fee income:		
Asteron Group Limited (formerly SIP Super Pty Limited)	(269,291)	(246,192)
Suncorp Financial Services Limited	(211,604)	(246,192)
Suncorp Investment Management Limited	(7,066,234)	(7,577,145)
	<u>(7,547,129)</u>	<u>(8,069,529)</u>
Administration expenses (revenue):		
Suncorp Metway Limited	2,307,176	19,865,594
Suncorp General Insurance Limited	953,317	-
Asteron Group Limited (formerly SIP Super Pty Limited)	(590,031)	(461,126)
Suncorp Financial Services Limited	1,781,483	2,105,299
Suncorp Investment Management Limited	11,925,149	13,027,956
	<u>16,377,094</u>	<u>34,537,723</u>
Investment expenses:		
Suncorp Metway Limited	580,038	1,010,412
	<u>580,038</u>	<u>1,010,412</u>
Dividends paid or due and payable :		
Asteron Group Limited (formerly SIP Super Pty Limited)	-	(2,500,751)
Suncorp Financial Services Limited	-	(7,944,398)
	<u>-</u>	<u>(10,445,149)</u>

During the year the Easysuper business in the Company was migrated to a new Wealthsmart platform in Suncorp Portfolio Services Pty Ltd (SPSL). This was facilitated through the sale of a \$13.8 million management right to SPSL. All associated deferred acquisition costs (\$29.3 million), deferred fees, \$12.9 million and instalment fees (\$3.2 million) on the Easysuper business (including associated deferred tax balances of \$5.8m), were written off through the profit and loss (net impact of the write off was \$13.8m).

The aggregate amounts receivable from, and payable to, in each class of related parties at balance date are as follows:

	2010 \$	2009 \$
Loans, advances and other receivables:		
ultimate parent entity	4,421,335	3,697,685
related entity	10,944,849	21,545,576
controlled entities	-	5,147,131
	<u>15,366,184</u>	<u>30,390,392</u>
Deposits and short term borrowings:		
ultimate parent entity	17,656,490	30,152,502
related entity	571,859	570,396
	<u>18,228,349</u>	<u>30,722,898</u>

**36. Subsequent events**

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 Company, the results of those operations, or the state of affairs of the Company in future financial years.

In the opinion of the Directors of Suncorp Life & Superannuation Limited ("the Company"):

- (a) the financial statements and notes, set out on pages 6 to 65, are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Dated at Brisbane this 25 August 2010

  
**John D. Story**  
Director

  
**Patrick J R Snowball**  
Executive Director



## **Independent auditor's report to the members of Suncorp Life & Superannuation Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Suncorp Life & Superannuation Limited (the Company), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 36 and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

- (a) the financial report of Suncorp Life & Superannuation Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

KPMG

David Kells  
*Partner*

Sydney

25 August 2010