# Annual Report 2009/10

*One Company. Many Brands*

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# Chairman's message

Dear Shareholder,

I am pleased to report that our Company has continued to make real and substantial progress for the 2009/10 financial year.

Net profit after tax for the full year was $780 million, up from $348 million in the previous financial year. While the Board is encouraged by the improved financial outcome, we are acutely aware that this growth was from an unacceptably low base, and that much more is required to regain the ground lost over the past two years. We are, however, confident that the foundations are now in place to see this achieved.

At the Group level, we have a clearly articulated direction and strategy, driven by a highly experienced management team, skilled in the financial services industries. Our balance sheet and capital position have been strengthened significantly, providing us with stability in an environment where regulatory change and global market volatility remain cause for concern across financial services.

Each of our businesses is growing profitably, and earlier this year each presented its growth strategy to the market. These presentations were well received. As is the case at the Group level, the management team within each business has a deep level of experience and expertise within the context of that business. The teams are now fully focused on the execution and delivery of their strategic objectives.

While no-one at Suncorp underestimates the challenges, we are now well on the path towards realising the full extent of the substantial potential that resides within each of our businesses and the Group.

It is this confidence in our future prospects that has enabled the Board to declare a second half dividend of 20 cents per share fully franked, meaning that our full year payout is at the top end of our target ratio.

We believe that this ratio, of 50% to 60% of cash profits, remains appropriate having regard to the continuing uncertainties within the external environment that I referred to earlier. The validity of our decision to position our first half dividend slightly below the ratio was confirmed following a succession of severe weather events in Melbourne, Perth and Queensland in March, and this emphasises the importance of a cautious approach in the rebuilding phase.

Given continued fair winds, we anticipate the emergence of capital that is surplus to the requirements of the Group, and it is our intention that this be returned to shareholders. I stress that this will be subject to a substantial resolution of the existing uncertainties within the external markets, and only when it is fully prudent to do so having regard to the circumstances within the Group.

In my conversations with shareholders last year, I received very clear messages concerning the size and composition of the Board. On behalf of the Board, I committed to our addressing these issues, and we have done so.

Securing changes to the State Government legislation setting residency requirements for directors was a lengthy but necessary step in this process.

Since last year's Annual General Meeting, five directors have retired from the Board. One new director has been appointed, who brings career experience in banking and the broader financial services industries. We are working on the further strengthening of the Board focus on financial services experience.

With continued evidence of the stabilisation of the operations of the Group and the redevelopment of its momentum, it is appropriate that we complete the renewal of the Board with the transition to a new Chairman.

I have decided, with the support of the Board, that I will retire at the 2011 Annual General Meeting. This timing will enable a planned and orderly process of transition.

In particular, it will ensure continuity as we emerge from the rebuilding phase and appropriate oversight of the complexities involved as we consider moving to a non-operating holding company structure. I retire by rotation in the normal course at this year's Annual General Meeting. I will stand for re-election but, if re-elected, will serve only one year of the extended term.

The past three years have been extraordinarily challenging for the Group, but I believe that throughout the Board has demonstrated continuity, stability and leadership. In particular, I would like to acknowledge the significant contributions by the non-executive directors who have retired during the year, Leo Tutt, Martin Kriewaldt, Cherrell Hirst and Ian Blackburne, and to thank them most sincerely for their commitment and support.

Sadly, a director who retired during the course of the year died recently. Chris Skilton served with distinction as an Executive Director, Chief Financial Officer and acting Chief Executive Officer during his long Suncorp career. He is greatly missed by all of us who had the pleasure of working with him.

Finally, I would like to thank Patrick Snowball, his senior leadership team and all Suncorp employees. Put simply, the Group today is in a far different place, and that is attributable to contributions throughout the Group. Since his arrival, Patrick has attacked the challenges with enthusiasm, commitment and absolute discipline, and has provided guidance and leadership that has re-invigorated the Group and re-ignited its momentum.

Thank you for your continued support of Suncorp.

**John Story**
Chairman, 25 August 2010

# Directors' Report

for the year ended 30 June 2010

The directors present their report together with the financial report of Suncorp-Metway Ltd (the Company) and of the Group, being the Company and its subsidiaries, and the Group's interest in associates and jointly controlled entities for the financial year ended 30 June 2010 and the auditor's report thereon.

## 1. Directors

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

**William J Bartlett**
FCA, CPA, FCMA, CA (SA)
Age 61
Non-executive director
Chairman Audit Committee
Member Remuneration Committee

Director since 1 July 2003. Mr Bartlett is a director of Reinsurance Group of America Inc., GWA International Limited and Abacus Property Group. He has 35 years' experience in accounting and was a partner of Ernst & Young in Australia for 23 years, retiring on 30 June 2003.

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

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| Abacus Property Group | 14.02.07 | |
| GWA International Limited | 21.02.07 | |
| Arana Therapeutics Limited | 10.08.04 | 28.12.07 |
| Reinsurance Group of America Inc. (NYSE) | 26.05.04 | |

**Dr Ian D Blackburne**
BSc (First Class Hons), MBA, PhD
Age 64
Non-executive director
Chairman Risk Committee

Director since August 2000. Dr Blackburne is Chairman of CSR Limited and a director of Teekay Corporation and Aristocrat Leisure Limited. He was formerly Chairman of the Australian Nuclear Science and Technology Organisation (July 2001–June 2006) and was formerly Managing Director of Caltex Australia Limited having spent 25 years in the petroleum industry.

Dr Blackburne has notified his intention to retire as a director on 31 August 2010.

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| CSR Limited | 01.09.99 | |
| Symbion Health Limited | 01.09.04 | 28.04.08 |
| Teekay Corporation (NYSE) | 08.09.00 | |
| Aristocrat Leisure Limited | 01.12.09 | |

**Paula J Dwyer**
BComm, FCA, FAICD, FFin
Age 49
Non-executive director
Member Audit Committee

Director since April 2007. Ms Dwyer was a director and chairman of the audit, risk and compliance committee of Promina Group Limited at the date of merger with the Company. She is also a director of Tabcorp Holdings Limited, where she is chairman of the audit committee, Astro Japan Property Group Limited where she is chairman of the audit risk and compliance committee, and Healthscope Limited. Ms Dwyer is a member of the Takeovers Panel and Deputy Chairman of the Baker IDI Heart and Diabetes Research Institute.

Prior to becoming a company director in 2000, Ms Dwyer's professional experience was in securities, investment banking and chartered accounting, holding senior positions with Ord Minnett (now J P Morgan) and PricewaterhouseCoopers. She was formerly a director of David Jones Limited.

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| Tabcorp Holdings Limited | 30.08.05 | |
| Astro Japan Property Group Limited | 19.02.05 | |
| Healthscope Limited | 10.03.10 | |

**Stuart I Grimshaw**
BCA (Vic, NZ), MBA, PMD (Harvard)
Age 49
Non-executive director
Member Audit and Risk Committees

Director since January 2010. Mr Grimshaw has over 25 years' experience in the banking and financial services industry, both in Australia and abroad. He was appointed CEO at Caledonia Investments in January 2009. Mr Grimshaw formerly held senior positions at Commonwealth Bank of Australia including Chief Financial Officer, Group Executive Premium Business and Group Executive Wealth Management.

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

Mr Grimshaw is a Fellow of FINSIA, a member of the board of the Melbourne Football Club and President of Hockey Australia.

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| Nil | | |

*Former non-executive director*

**Dr Cherrell Hirst AO**
MBBS, BEdSt, DUniv (Hon), FAICD
Age 64
Non-executive director from 8 February 2002 to 16 April 2010
Member Risk and Remuneration Committees to 16 April 2010

Dr Hirst is a medical doctor and was a leading practitioner in the area of breast cancer diagnosis and screening. She is Deputy Chairman of Queensland BioCapital Funds Pty Ltd, a director of Medibank Private Limited, Avant Insurance Ltd and Avant Mutual, ImpediMed Limited, Xenome Ltd, Tissue Therapies Limited and Opera Queensland Limited. Dr Hirst was a director of Metway Bank Limited from July 1995 to December 1996 and was Chancellor of Queensland University of Technology from 1994 to 2004.

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| Peplin Inc. | 17.08.00 | 06.11.09 |
| ImpediMed Limited | 01.09.05 | |
| Tissue Therapies Limited | 30.06.09 | |

*Former non-executive director*

**Martin D E Kriewaldt**
BA, LLB (Hons), FAICD
Age 60
Non-executive director from 1 December 1996 to 16 April 2010
Member Audit Committee to 16 April 2010

Mr Kriewaldt was a director of the Suncorp Group from 1990 and Chairman at the time of the merger that formed Suncorp-Metway Ltd in 1996. He is Chairman of Opera Queensland Limited and a director of ImpediMed Limited, Campbell Brothers Limited, Oil Search Limited, Macarthur Coal Limited and BrisConnections Management Company Limited.

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| Arana Therapeutics Limited | 24.10.03 | 28.08.07 |
| BrisConnections Management Company Limited | 24.10.08 | |
| Campbell Brothers Limited | 12.06.01 | |
| GWA International Limited | 25.06.92 | 30.10.08 |
| ImpediMed Limited | 24.03.05 | |
| Macarthur Coal Limited | 13.10.08 | |
| Oil Search Limited | 16.04.02 | |

**Ewoud J Kulk**
BEcon, FAICD
Age 64
Non-executive director
Member Risk and Remuneration Committees

Director since March 2007. Mr Kulk was a director of Promina Group Limited at the date of merger with the Company. He was Managing Director of the Australian General Insurance Group (1994–1998) and was Group Director Asia Pacific for Royal & Sun Alliance Insurance Group plc from March 1998 until his retirement in September 2003. Mr Kulk is a member of the NSW Council of the Australian Institute of Company Directors and a past president of the Insurance Council of Australia. He has over 25 years' experience in the insurance industry.

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| Nil | | |

**Geoffrey T Ricketts**
LLB (Hons)
Age 64
Non-executive director

Director since March 2007. Mr Ricketts was a director of Promina Group Limited at the date of merger with the Company. He is Chairman of Lion Nathan National Foods Limited and a non-executive director of Spotless Group Limited, Todd Corporation Limited and Southern Cross Building Society (NZ). Mr Ricketts is also a director of the Centre for Independent Studies Limited. He is a lawyer and a consultant for Russell McVeagh, Solicitors (NZ) and was a partner in that firm from 1973 until 2000.

He was formerly Chairman of Royal & Sun Alliance's New Zealand (R&SA NZ) operations having been a non-executive director of R&SA NZ for over 10 years.

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| Lion Nathan Limited | 13.06.88 | Delisted 28.10.09 |
| Spotless Group Limited | 08.07.96 | |
| Taylors Group Limited (NZX) | 13.01.92 | 18.12.09 |

*Former executive director and Chief Financial Officer*

**Christopher Skilton**
BSc (Econ) (Hons), ACA (Eng & Wales)
Age 56
Acting Managing Director and Chief Executive Officer
2 March 2009 to 31 August 2009
Executive director 13 November 2002 to 31 August 2009

Chris Skilton joined the Company in July 2001 as Chief Financial Officer (CFO). As CFO of the Group, he had responsibility for finance, treasury, risk, compliance, regulatory affairs, company secretarial, and legal and investor relations.

He was previously with Westpac where his final position was Group Executive, New Zealand and the Pacific Islands and prior to that Deputy Chief Financial Officer. Prior to Westpac, Chris was Managing Director and CEO of AIDC Ltd. While still employed with AIDC, Chris was acting CEO of the Australian Submarine Corporation (ASC), one of Australia's largest and most complex engineering projects. (AIDC was a major shareholder in ASC). His wide professional experience also included executive positions with Security Pacific Australia and the Barclay Group of Companies.

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| Nil | | |

## 1. Directors (continued)

**Patrick J R Snowball**
MA, Hon. LL.D
Age 60
Group Chief Executive Officer and Managing Director

Managing Director since joining the Group on 1 September 2009. Mr Snowball is an experienced financial services executive with extensive knowledge of the insurance industry, having overseen businesses in the UK, Ireland, Canada, India and Asia.

Mr Snowball joined the main board of Norwich Union plc in 1999 prior to the merger with CGU in 2000, having previously been part of the team delivering the realignment of Norwich Union after demutualisation in 1997. He rejoined the Aviva main board in 2001 as Executive Director for general insurance in the UK, Ireland, Canada, India and Asia.

From 2005 to 2007, he was Group Executive Director, Aviva UK, where he was responsible for all UK operations, including its general and life insurance businesses.

He worked with the Towergate group of companies in both a deputy chairman and chairman's roles and served as a non-executive director of Jardine Lloyd Thompson plc from 2008 to 2009.

Mr Snowball was a member of the Financial Services Authority (FSA) Practitioner Panel (UK) – representing Life and General Insurance – from 2006 to 2008.

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| Jardine Lloyd Thompson Group Plc (LSE) | 01.11.08 | 01.07.09 |

**John D Story**
BA, LLB, FAICD
Age 64
Non-executive Chairman
Ex-officio member Audit, Risk and Remuneration Committees

Director since January 1995, Deputy Chairman since June 2002 and Chairman since March 2003. Mr Story was a partner of the national law firm Corrs Chambers Westgarth for 36 years, retiring on 30 June 2006. He practised in the areas of corporate and commercial law and served as Queensland Managing Partner and National Chairman.

He is Chairman of Tabcorp Holdings Limited and a director of CSR Limited. Mr Story is Chancellor of The University of Queensland and is a Commissioner of the Public Service Commission (Queensland).

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| CSR Limited | 12.04.03 | |
| Tabcorp Holdings Limited | 29.01.04 | |

**Dr Zygmunt E Switkowski**
BSc (Hons), PhD, FAICD, FTSE
Age 62
Non-executive director
Chairman Remuneration Committee
Member Risk Committee

Director since September 2005. Dr Switkowski is Chairman of the Australian Nuclear Science and Technology Organisation and Opera Australia, a director of Healthscope Limited and Tabcorp Holdings Limited. He was previously CEO of Telstra Corporation Limited, Optus Communications Ltd and Kodak Australasia Pty Ltd.

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| Healthscope Limited | 19.01.06 | |
| Tabcorp Holdings Limited | 02.10.06 | |

*Former non-executive director*

**Leo E Tutt**
FCA, FAIM, FAICD
Age 72
Non-executive director from 20 March 2007 to 28 October 2009
Member Audit and Remuneration Committees to 28 October 2009

Mr Tutt was Chairman of Promina Group Limited at the date of merger with the Company and was a non-executive director of Promina Group companies in Australia since February 1994. He has over 32 years' experience in the insurance sector as a non-executive director and Chairman of Phoenix Assurance Company Australia Limited (1974–1982), Friends Provident Life Assurance Co Ltd (1984–1994) and a non-executive director of Friends Life Office (UK) (1987–1993).

He was Chairman of MIM Holdings Limited until 2003 and was a director of Metway Bank Limited (1992–1996). He is also Chairman of Crane Group Limited.

Listed company directorships held since 1 July 2007

| Company name | Appointed | Resigned |
|---|---|---|
| Crane Group Limited | 14.09.01 | |

## 2. Company secretary

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

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

## 3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year ended 30 June 2010 were:

| | Board of Directors | | Audit Committee | | Risk Committee | | Remuneration Committee | | Nomination Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B |
| J Story | 12 | 12 | 5 | 4 | 7 | 7 | 6 | 6 | 2 | 2 |
| P Snowball | 9 | 9 | 4 | 4[1] | 5 | 5[1] | 5 | 4[1] | – | – |
| W Bartlett | 12 | 12 | 5 | 5 | – | – | 2 | 2 | 2 | 2 |
| Dr I Blackburne | 12 | 12 | – | – | 7 | 7 | – | – | 2 | 2 |
| P Dwyer | 12 | 12 | 5 | 5 | – | – | – | – | 2 | 2 |
| S Grimshaw | 6 | 6 | 1 | 1 | 3 | 3 | – | – | 1 | 1 |
| Dr C Hirst AO | 9 | 8 | – | – | 6 | 5 | 3 | 3 | 1 | 1 |
| M Kriewaldt | 9 | 8 | 4 | 4 | – | – | – | – | 1 | 1 |
| E Kulk | 12 | 10 | – | – | 7 | 7 | 6 | 6 | 2 | 2 |
| G Ricketts | 12 | 11 | – | – | – | – | – | – | – | – |
| C Skilton | 3 | 3 | 1 | 1[1] | 2 | 2[1] | 1 | 1[1] | – | – |
| Dr Z Switkowski | 12 | 12 | – | – | 7 | 7 | 6 | 6 | 2 | 2 |
| L Tutt | 4 | 4 | 1 | 1 | – | – | 1 | 1 | – | – |

**A** number of meetings held during the year while the director was a member of the Board or committee.
**B** number of meetings attended by the director during the year while the director was a member of the Board or committee.
1 Executive directors attend Audit Committee, Risk Committee and Remuneration Committee meetings at the invitation of those committees. In accordance with accepted good governance practice there are no management representatives appointed as members of the Audit Committee.

## 4. Remuneration Report

The Remuneration Report is set out on page 11 and forms part of the Directors' Report for the financial year ended 30 June 2010.

## 5. Principal activities

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

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

### 5.1 Group's objectives

The Group's strategic vision is to become the most admired financial services organisation in Australia and New Zealand.

The Group is focused on delivering consistent, strong returns through its unique, diversified business model which consists of five operating divisions with end-to-end accountability supported by a lean, strong corporate centre and a shared service function for common services and infrastructure.

## 6. Operating and financial review

### 6.1 Overview of the Group

The financial year ended 30 June 2010 represented a period of stabilisation and consolidation for the Group with the appointment of Patrick Snowball as Group Chief Executive and an overhaul of the operating strategies of the three lines of business.

Mr Snowball, who commenced on 1 September 2009, quickly confirmed that General Insurance, Banking and Life Insurance operations were all core to the Group's future strategy.

The General Insurance profit before tax was $774 million, representing an increase of 37.5% on the prior year. This has been achieved despite adverse natural hazard events being $165 million in excess of long-run allowances, a $75 million pre-tax charge as a result of increasing the expectation for wage inflation to 4.5% and a revision to the methodology in deferring acquisition costs which resulted in a one-off $47 million charge.

In Suncorp Bank (the Bank), profit before tax was $78 million. The run-off of the non-core portfolio progressed ahead of expectations, with gross loans, advances and other receivables reducing by $3.6 billion over the year.

## 6. Operating and financial review (continued)

### 6.1 Overview of the Group (continued)

Momentum is building in the Life business, with solid underlying profit after tax of $192 million, an increase of 6.7% on the prior year. Market adjustments of $30 million, resulted in net profit after tax, including non-controlling interests, of $222 million. The embedded value of Life grew 12.2% to $2.4 billion.

The sale of Hooker Corporation Limited and the Group's joint venture interests in RACQ Insurance Limited and RAA – GIO Insurance Holdings Limited contributed profit before tax of $215 million. Other significant items included the amortisation of intangible assets of $210 million and the final costs of integration totalling $59 million.

The net profit after tax attributable to the owners of the Company increased 124.1% to $780 million. Cash earnings per share (excluding the proceeds of divested assets), which forms the basis of the Group's dividend payout policy, was 60.8 cents per share.

### 6.2 Financial position and capital structure

The Group's capital position has strengthened during the year due to improved operational earnings, the run-off of the non-core banking portfolio and the disposal of Hooker Corporation Limited and the motoring club joint ventures.

The Group has a strong financial position with shareholders' equity at $13.9 billion. The Bank's risk weighted capital ratio is 14.71%, the Tier 1 ratio is 13.23%, the Adjusted Fundamental Tier 1 ratio is 7.03% and the General Insurance Minimum Capital Requirement is 1.89 times the regulatory minimum.

Although the Group's capital levels are above both current regulatory and internal targets, the Board has determined that it is prudent to retain appropriate capital buffers while economic and regulatory risks remain. Once regulatory uncertainties are resolved, the Group believes it will be in a position to provide further clarity regarding revised capital targets and its capital management strategy. The Board remains strongly of the view that capital surplus to the requirements of the Group should be returned to shareholders.

The Board has:

- declared a final ordinary dividend of 20 cents per share, bringing the full year dividend to 35 cents per share
- decided to neutralise the dilutionary effect of the Dividend Reinvestment Plan by purchasing shares on-market; and
- agreed to call $220 million of subordinated medium term notes at their first call date on 15 September 2010.

An important component of the Group's strategy has been the simplification of the Group capital management and reporting. Currently, the Bank is the holding company for the Group and its capital position is complicated by the legal ownership of the General Insurance and Life subsidiaries. The Group has made good progress with the evaluation of moving to a formal non-operating holding company structure to reduce this complexity.

### 6.3 Impact of legislation and other external requirements

The Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding (the Guarantee Scheme) which commenced on 28 November 2008, ceased on 31 March 2010. Under the Guarantee Scheme, the Bank could obtain guarantees for deposit balances totalling over $1 million per customer and for wholesale funding liabilities. However, for the Bank, this wholesale guarantee and deposit guarantee for balances over $1 million incurred a fee of 1% of the amount guaranteed. The Australian Government guarantee of deposit balances totalling less than $1 million per customer continues until October 2011, or such earlier time as the Government determines, and does not incur a fee. A replacement longer term threshold figure for protecting retail deposits is being considered by Treasury under the Government's Financial Claims Scheme.

During the year ended 30 June 2010, the Bank raised long-term wholesale funding totalling just over $3 billion that was guaranteed under the Guarantee Scheme. The Guarantee Scheme also assisted in increasing the Bank's retail deposits during the year and short-term funding.

The Bank has successfully implemented the first stage of change necessary to comply with the National Consumer Credit Protection legislation which commenced in April 2010. The legislation was designed to codify existing State Uniform Consumer Credit Codes, introduce new licensing and responsible lending requirements and expand regulation of credit to individuals for residential property investment purposes. The Bank has also successfully made the necessary changes to its Australian Financial Services Licence to continue margin lending. The Bank continues to work on the relevant changes for compliance with licensing and responsible lending obligations as well as the required change under the margin lending reform which is contained under the *Corporations Legislation Amendment (Financial Services Modernisation) Act 2009.*

In March 2010, the Australian Consumer Law was passed and introduced provisions for unfair contract terms. This prompted a review of all consumer contracts and other relevant product documentation prior to these provisions taking effect on 1 July 2010.

The Bank continues to work on and understand the impacts arising from the *Personal Property Securities Act 2009*, Australian Prudential Regulation Authority's (APRA) proposed changes to liquidity risk management, and impacts related to changes in Privacy and Bankruptcy law.

The Federal Government has tabled into Parliament changes to the *Insurance Contracts Act 1984*. The General Insurance Code of Practice has also now been reviewed and changes implemented.

The new tax regime, Taxation of Financial Arrangements (TOFA), applies to the Australian entities of the Group from 1 July 2010. The new law sets out methods under which gains and losses from financial arrangements will be brought to account for tax purposes.

Outcomes of Government reviews conducted into Superannuation, Financial Planning, Privacy and the Taxation System could also impact the Group's operations.

From 1 April 2010, the Bank, our general insurance licensed entities and the life insurance companies were required to comply with APRA's new obligations on managing remuneration risk. The Group has revised its remuneration policies to comply with both these new APRA Prudential Standards and Corporations Act changes.

APRA has published discussion papers designed to update and harmonise general and life insurance capital standards, together with Level 3 supervision of conglomerates. APRA is also progressing capital and liquidity reforms with consideration of global reforms being proposed by the Basel Committee on Banking Supervision. All of these prudential proposals will impact the Group's respective operations in banking, general and life insurance and implementation of these reform matters is expected during 2012.

The New Zealand regulatory environment is undergoing significant change with the introduction or implementation of key pieces of legislation including anti money laundering, prudential supervision, financial advisers, trustee supervision and life company taxation. These will impact our New Zealand operations.

## 6.4 Review of principal businesses

**General Insurance** recorded a profit before tax of $774 million for the financial year.

The Insurance Trading Result (ITR) was $605 million, representing an insurance trading ratio of 9.6%. The ITR has improved despite the continuation of adverse natural hazard claims experience and some methodology changes to ensure a conservative approach to balance sheet management. During the year, the outstanding claims provision has been strengthened by increasing the assumption for wage inflation to 4.5% from 4% at a cost of $75 million. Additionally, a revision to the methodology for deferring acquisition costs resulted in an additional one-off cost of $47 million.

Gross written premium (GWP) increased by 3.1% on the prior year to $7 billion. Adjusting for the withdrawal from a number of underperforming product lines, underlying GWP growth was 6.5%. Short-tail classes experienced strong premium growth in both Home (13.6%) and Motor (6.4%). Premium rates in these classes increased following several years of adverse weather experience and higher reinsurance costs; however, retention rates have remained strong. In long-tail classes, Compulsory Third Party rates increased in both New South Wales and Queensland, resulting in an overall GWP increase of 13.3%. Commercial insurance lines remained flat due to the withdrawal from underperforming products, offset by underlying premium growth of 3.9%.

Net claims expenses were stable at $4.6 billion. Short-tail claims expenses were impacted by a number of major weather events with the result that natural hazard claims were $165 million above the Group's long-run allowance. In long-tail claims, favourable releases from the commercial liability and workers' compensation portfolios were partially offset by the increase in the assumption for wage inflation.

Total operating expenses marginally increased to $1.7 billion. Acquisition expenses decreased by $41 million, despite the $47 million one-off charge following the revision to the methodology for deferring acquisition costs. Other underwriting expenses increased by $61 million, impacted by an increase in the fire service levy of $29 million and one-off costs of $34 million relating to the restructure of the General Insurance operations.

Investment income on insurance funds was $602 million. This included a benefit of $105 million from the narrowing of credit spreads and other mismatches. Investment returns on shareholder funds was $194 million, reflecting an increase in interest rate yields.

**Banking** recorded a profit before tax of $78 million for the year ended 30 June 2010.

The Bank separated lending portfolios into core and non-core lines and is now focused on relationship-based lending and deposit gathering in the core business, while responsibly managing run-off of the non-core business.

Gross banking loans, advances and other receivables reduced 6.5% to $51.8 billion. In the personal customer segment, housing loan receivables (including securitised assets) grew 2.8% over the year to $29.1 billion. Consumer lending decreased 6.7% during the year to $569 million as customers continued to exercise caution with discretionary expenditure. Business lending assets totalled $20.3 billion at 30 June 2010, representing a decrease of 20.2% for the financial year. The management of the non-core portfolio continues to be administered by a separate management team dedicated to prudent run-off, with progress in the run-off program ahead of expectations.

Credit quality in the core portfolio remains strong despite higher bad debt charges for the year. Rising interest rates, reduced Government stimulus and higher costs of living resulted in increased arrears levels over the period. The core portfolio is well secured over physical property and actual losses remain well within the Bank's expectations and risk tolerance.

The Bank maintained its focus on attracting retail deposits and achieved an 8.5% increase in core retail deposits to $23.2 billion, resulting in an improvement in the deposit to core lending ratio to 71%. Funding of the non-core portfolio has been managed conservatively, with effective 'match funding' delivering reduced refinancing risk through to portfolio maturity.

The Bank holds strong levels of liquidity in the non-core book to enable repayment of funding maturities. This approach also positions the Bank well to meet any regulator imposed requirements to strengthen liquidity reserves across the industry.

Net interest income was $928 million, representing a margin of 1.42%, down 26 basis points on the prior year. The market for both deposits and lending is extremely competitive with wholesale funding markets remaining volatile and placing increased cost pressures on the industry.

## 6. Operating and financial review (continued)

### 6.4 Review of principal businesses (continued)

Operating expenses remained stable, but the lower income levels resulted in a higher cost-to-income ratio of 49.5%. During the second half of the financial year, the Bank has focused on investment in the business to stimulate growth through increased advertising and promotion, new branch openings and refurbishment of existing branches.

Bad debt expense for the financial year was $479 million, equating to 92 basis points of gross loans, advances and other receivables. Recent experience demonstrates the impairment loss rates on the portfolio have trended down significantly from the peak of the 2009 financial year.

**Life** reported profit before tax of $310 million, an increase of 213.1% on the prior year. Underlying profit, which excludes annuities market adjustments, life risk policy liability discount rate changes and net investment income on shareholder assets, increased 6.7% to $192 million. In-force premium grew by 7% to $784 million, while operating expenses fell 5% to $321 million and embedded value grew by 12.2% to $2.4 billion.

Life Risk profit remained flat at $137 million for the full year. The planned profit release (including policy liability unwind) increased by 7.6% to $85 million. Underlying investment income of $50 million increased by 13.6% on the prior year primarily due to increased earning rates. 'Other experience' losses of $9 million were predominantly driven by policy lapses. An allocation of distribution expenses is included in 'other experience'.

Life is focused on building distribution reach and capability. In Life Risk, progress has been made with sales through the independent financial advisor channel increasing by 15% however lower sales through other channels resulted in flat new business sales of $86 million.

Life is focused on improving customer retention and has put in place a robust action plan to maximise retention, based on customer analytics and new pricing strategies, to address policy lapse rates.

In Superannuation & Investments, funds under administration increased by 3.8% on the prior year to $12.3 billion. Profit increased by 28.1% to $41 million despite a weaker equities market. The result also includes an allocation of distribution expenses.

In Asset Management, funds under management increased by 6.6% on the prior year to $24.9 billion, with profit of $14 million representing an increase of 16.7% on the prior year. The result is underpinned by strong expense management.

Market Adjustments of $30 million do not impact underlying performance; however, they do impact net profit after tax. The adjustments are largely due to the impact of discount rate movements on policy liabilities. Investment experience was neutral due to equity market performance, but increased significantly from an $86 million shortfall in 2009. Life has reduced its equity exposure backing the risk and annuity business, thereby improving its resilience to market volatility.

### 6.5 Significant changes in the state of affairs

During the year, the Queensland State Government amended legislation (*State Financial Institution and Metway Merger Act 1996*) removing the requirement that a minimum number of directors of the Company and its relevant subsidiaries be Queensland residents.

The Group implemented a new business model consisting of five operating divisions with end-to-end accountability supported by a lean, strong corporate centre and a shared services function.

The Group sold its interests in Hooker Corporation Limited and the RACQ Insurance Limited and RAA – GIO Insurance Holdings Limited joint venture arrangements, thus supporting the Group's strategic focus of driving growth in its core businesses.

### 6.6 Environmental regulation

The operations of the Group are not currently subject to any particular and significant environmental regulation under any law of the Commonwealth of Australia or any of its states or territories. The Group may, however, become subject to state environmental regulation when enforcing securities over land for the recovery of loans. It is expected that the Building Energy Efficiency Disclosure Bill will be passed no later than 31 December 2010, which will require the Group to obtain a Building Energy Efficiency Certificate (BEEC) for any building where the Group plans to sell or sublease commercial office space above 2,000 square metres. In addition, the Group will be required to submit greenhouse gas emissions reports through the National Greenhouse Emissions Reporting Scheme in 2010/11 once the emissions threshold has been reached. The Group has not incurred any liability (including for rectification costs) under any environmental legislation.

## 7. Dividends

A fully franked 2010 interim dividend of $191 million (15 cents per share) was paid on 1 April 2010. A fully franked 2010 final dividend of $256 million (20 cents per share) has been declared by directors.

Further details of dividends provided for or paid are set out in note 36 to the consolidated financial statements.

## 8. Events subsequent to reporting date

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

## 9. Likely developments

Over the coming financial year, the Group will continue with the run-off of the non-core banking portfolio while focusing on the growth of its core banking, general insurance and life insurance operations.

The Group is considering the implementation of a non-operating holding company structure which, if pursued, would require various regulatory and shareholder approvals.

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

## 10. Directors' interests

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

| | 2010 | 2010 |
|---|---|---|
| | **Fully paid ordinary shares** | **Convertible preference shares** |
| J Story | **138,803** | **–** |
| W Bartlett | **19,968** | **–** |
| Dr I Blackburne | **36,640** | **–** |
| P Dwyer | **20,000** | **–** |
| S Grimshaw | **23,350** | **–** |
| E Kulk | **20,173** | **–** |
| G Ricketts | **22,716** | **–** |
| P Snowball[1] | **966,123** | **–** |
| Dr Z Switkowski | **61,599** | **–** |

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

## 11. Indemnification and insurance of officers

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

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

During the financial year ended 30 June 2010, the Company paid insurance premiums in respect of a directors' and officers' liability insurance contract. The contract insures each person who is or has been a director or executive officer (as defined in the *Corporations Act 2001*) of the Company against certain liabilities arising in the course of their duties to the Company and its subsidiaries. The directors have not included details of the nature of the liabilities covered or the amount of the total premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

## 12. Non-audit services

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

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

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

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

| | 2010 | 2009 |
|---|---|---|
| | **$000** | $000 |
| **Services other than statutory audit** | | |
| *Audit-related fees (regulatory)* | | |
| APRA reporting | **650** | 504 |
| Risk management | **74** | 122 |
| Australian Financial Services Licences | **126** | 164 |
| Other regulatory compliance services | **1,484** | 1,322 |
| | **2,334** | 2,113 |
| *Audit-related fees (non-regulatory)* | | |
| Other assurance services | **706** | 675 |
| Due diligence | **–** | 1,220 |
| | **706** | 1,895 |
| *Non-audit services* | | |
| Other services | **20** | – |
| *Tax fees* | | |
| Tax compliance | **12** | 89 |
| **Total** | **3,072** | 4,097 |

## 13. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 34 and forms part of the Directors' Report for the financial year ended 30 June 2010.

## 14. Rounding off

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

# Remuneration Report

The Board presents the Company's Remuneration Report for the financial year ended 30 June 2010 (2010). This report forms part of the Directors' Report. Sections 2 and 3 of the Remuneration Report have been audited in accordance with section 308(3C) of the *Corporations Act 2001*.

The Board:

- is committed to making a clear, concise and transparent disclosure of the Company's remuneration arrangements for Key Management Personnel (KMP)
- has presented this year's Remuneration Report in a format that allows for easier communication and a more concise presentation of the Company's approach to remuneration; and
- presents the Remuneration Report in three key sections as outlined below.

**1. Remuneration overview – unaudited**

1.1 an overview of the prevailing conditions affecting remuneration in 2010

1.2 an overview of actual remuneration payments to the Group Chief Executive Officer (Group CEO) and Group Executives (together, the Senior Leadership Team (SLT)) in office at 30 June 2010

**2. Remuneration – audited**

2.1 the policy and framework for remunerating the SLT

2.2 KMP, position titles and appointment dates

2.3 remuneration components

2.4 the link between remuneration and the Group's performance

2.5 SLT remuneration disclosures

2.6 contractual arrangements

**3. Non-executive director arrangements – audited**

3.1 remuneration structure

3.2 Non-Executive Directors' Share Plan

3.3 Non-executive directors' retirement benefits

3.4 remuneration details

## 1. Remuneration overview – unaudited

The Board is committed to clear and transparent disclosure of remuneration arrangements. This overview includes key details regarding SLT remuneration for 2010, and has been included in addition to statutory reporting requirements, to make it easier for shareholders to understand the Group's remuneration arrangements.

Sections 2 and 3 of the Remuneration Report provide greater detail regarding remuneration structures and outcomes.

### 1.1 Remuneration drivers and actions in 2010

**Recovery**

It is now clear that the Group has withstood the worst of the global economic crisis and entered a rebuilding phase. The Group met short-term performance hurdles during 2010, hence remuneration outcomes for the SLT are stronger than they were in the prior year, although still conservative:

- **Fixed remuneration** – there have been no increases to fixed remuneration, except where necessary to reflect an increase in the scope of an individual's role.
- **Long-term incentive (LTI)** – performance hurdles were not met during 2010, therefore members of the SLT in office at 30 June 2010 derived no value through the vesting of performance rights.
- **Short-term incentive (STI)** – key Group business targets were met during 2010, resulting in an STI payment for the year averaging 100% of target.

**Regulatory environment**

A number of changes within the regulatory environment contributed to a review of remuneration arrangements in 2010. Key regulatory changes were:

- finalisation of Australian Prudential Regulation Authority (APRA) recommendations
- release of the final Productivity Commission recommendations and Government response; and
- new legislation affecting employee share plans and termination benefits.

The following components of the remuneration framework were reviewed and updated, to ensure current remuneration practice was consistent with the key regulatory changes:

- **Remuneration policy** – the Board took APRA's principles and standards into account when framing the new remuneration policy.
- **Share plans** – new legislation impacted both the Deferred Employee Share Plan (DESP) and the Non-Executive Directors' Share Plan (NEDSP). Both the DESP and NEDSP are still in operation, and are subject to new regulations and increased reporting requirements.
- **Termination benefits** – executive contracts were reviewed in light of legislative changes concerning executive termination benefits which came into effect in November 2009.

## 1. Remuneration overview – unaudited (continued)

### 1.2 Remuneration payments to the current SLT

The following section:

- illustrates how remuneration strategy for the SLT translates into practice; and
- gives a clearer picture of the actual amounts paid in cash and other benefits to the members of the SLT in office as at 30 June 2010.

Full details of the cash and other benefits actually received during the financial year by the SLT who were KMP of the Company (for the purposes of the *Corporations Act 2001* and Accounting Standards), including the five highest remunerated executives for 2010, are listed in the table in section 2.5.

### Actual remuneration earned by the SLT in office as at 30 June 2010

| | Base salary[1] | STI (cash)[2] | STI (deferred cash)[2] | LTI (equity)[3] | Other[4] | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Patrick Snowball (from 1 September 2009)[5,8] | 1,757,308 | 962,500 | 962,500 | – | 250,000 | 2,969,808 |
| Roger Bell[6] | 555,656 | 650,000 | – | – | – | 1,205,656 |
| Dharma Chandran (from 20 April 2010)[7,8] | 250,000 | – | – | – | – | 250,000 |
| Anthony Day (from 21 October 2009)[8] | 387,843 | 460,417 | – | – | – | 848,259 |
| David Foster | 705,890 | 700,000 | – | – | – | 1,405,890 |
| Mark Milliner | 739,228 | 750,000 | – | – | – | 1,489,228 |
| John Nesbitt (from 3 May 2010)[8] | 135,258 | 133,333 | – | – | – | 268,591 |
| Jeff Smith | 754,612 | 850,000 | – | – | – | 1,604,612 |
| Robert Stribling (from 4 January 2010)[8] | 296,783 | 300,000 | – | – | – | 596,873 |
| Geoff Summerhayes | 628,857 | 625,000 | – | – | – | 1,253,857 |

1 Base salary represents actual fixed remuneration received, including salary sacrificed benefits and employer superannuation.
2 STI (cash) represents the cash component of the 2010 short-term incentive (STI) award. STI deferred cash represents the deferred element of the 2010 STI award. For further details of the STI program, refer to section 2.3.
3 LTI (equity) represents the value of performance rights granted under the long-term incentive (LTI) Executive Performance Share Plan (EPSP) which vested during the year. No performance rights vested in 2010 for SLT in office at 30 June 2010, therefore the amounts shown above are nil. Performance rights granted under the EPSP during 2010 and other grant years that are still in progress do not appear in this table, as they are not eligible for vesting until the conclusion of the performance period. For further details of the EPSP, refer section 2.3.
4 Other payments represent a one-off payment for relocation expenses.
5 50% of Mr Snowball's STI is paid in cash, with the remaining 50% deferred for two years. The value paid in cash for 2010 is represented within the table above.
6 Mr Bell is paid in New Zealand dollars, but remuneration details are disclosed in Australian dollars in the table.
7 Mr Chandran is seconded from Ernst & Young. Remuneration disclosed reflects fees paid to Ernst & Young.
8 Figures represent earnings since date of appointment.

Remuneration in respect of former members of the SLT is outlined in section 2.5.

### Actual and realisable benefits

Complete remuneration details prepared in accordance with the *Corporations Act 2001* and Accounting Standards are shown in the full remuneration table in section 2.5.

It is important to note that the cash and other benefits actually received by the SLT as shown in the table above differ from the amounts shown in the full remuneration table in section 2.5.

The full remuneration table includes amounts for LTI which did not deliver value during 2010 to the members of the SLT in office at 30 June 2010. The 'share-based payment' amount reflects the 2010 portion of the total accounting expense in relation to the fair value of LTI grants which is required to be expensed over the vesting period. The values realised in subsequent years may differ to the accounting expense reported in the full remuneration table, depending on the extent to which the performance hurdles are met.

Further details of the terms and conditions of STI and LTI are set out in 'Remuneration components' in section 2.3.

## 2. Remuneration – audited

### 2.1 Remuneration policy and framework

**Remuneration policy**

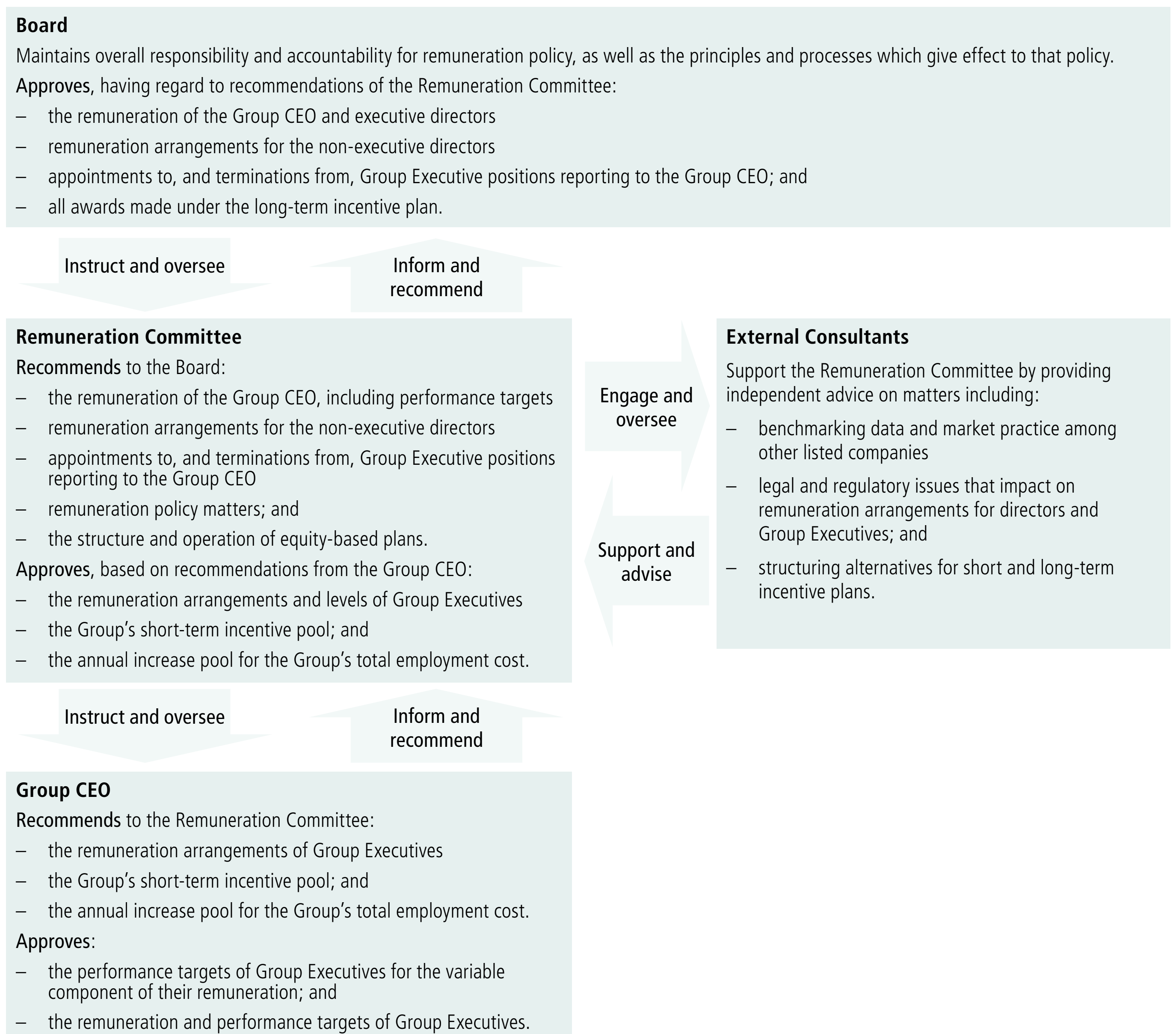
The Group's remuneration policy sets out the key objectives of its remuneration strategy. These are to:

– facilitate remuneration structures aligned to the business strategy
– provide competitive remuneration linked to appropriate internal and external benchmarks
– provide fair and appropriate remuneration outcomes having regard to the performance of both the Group and the individual; and
– ensure remuneration arrangements for all employees encourage behaviour that supports the Group's long-term financial soundness and risk management framework.

This section explains how the core objectives of the remuneration strategy are achieved in practice.

**Remuneration governance framework**

The Board is responsible for remuneration arrangements, ensuring they are equitable and strongly linked to the long-term interests of the Group. The Board relies on its Remuneration Committee to assist in remuneration-related matters and also on the advice of the Group CEO and other members of management.



## 2. Remuneration – audited (continued)

### 2.1 Remuneration policy and framework (continued)

**Remuneration Committee**

The Remuneration Committee comprises three independent non-executive directors and is chaired by Dr Zygmunt Switkowski. The Remuneration Committee is responsible for making recommendations to the Board on:

– the remuneration of directors and the remuneration and performance targets of the Group CEO
– appointments to, and terminations from, Group Executive positions reporting to the Group CEO
– remuneration and human resource policy matters; and
– the structure and operation of equity-based plans.

Further information on the Remuneration Committee's role, responsibilities and membership can be found in the Corporate Governance Statement.

**Use of remuneration consultants**

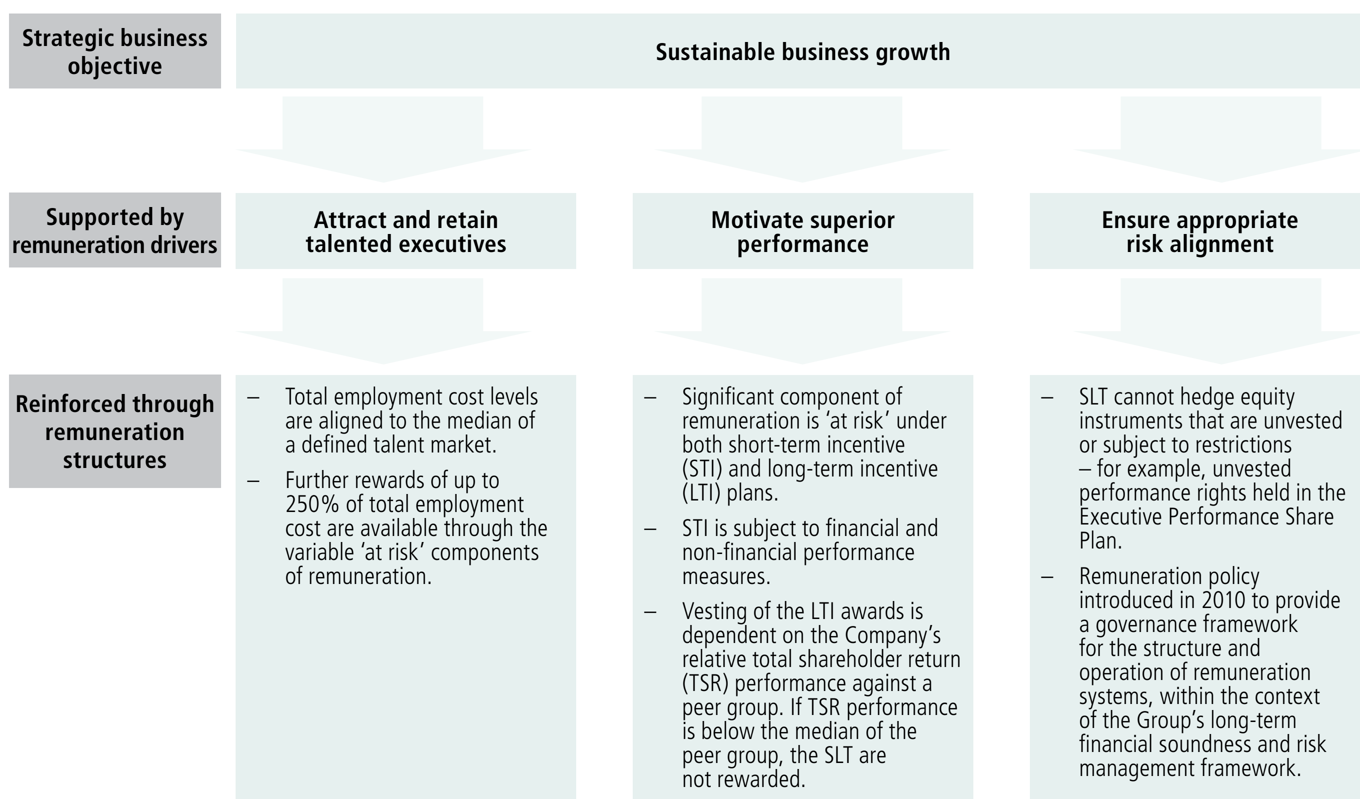
The Remuneration Committee engages independent external remuneration consultants to provide advice and market-related information as required.

In 2010 the Remuneration Committee engaged PricewaterhouseCoopers to provide independent advice to the Remuneration Committee and the Board on matters relating to remuneration outcomes, proposed changes to the Group's remuneration structures and practices and on specific matters such as remuneration policies.

The requirement for the services of an independent consultant to the Remuneration Committee will be assessed annually in the context of the issues to be addressed by the Remuneration Committee.

**Linking remuneration to business objectives**

The diagram below illustrates how SLT remuneration is structured to support the Group's strategic objective of achieving sustained business growth.



## 2.2 Key Management Personnel

Key Management Personnel (KMP) are those persons who have authority and responsibility for planning, directing and controlling the major activities of the Group, directly and indirectly. KMP include all directors of the Company (executive and non-executive) as well as Group Executives who report to the Group CEO. The KMP of the Company during 2010 were:

| Name | Position | Date appointed as a director or to current position (if an executive) |
|---|---|---|
| **Non-executive directors** | | |
| John Story (Chairman) | Non-executive Chairman | Chairman 7 March 2003; director 24 January 1995 |
| William Bartlett | Non-executive director | 1 July 2003 |
| Dr Ian Blackburne | Non-executive director | 2 August 2000 |
| Paula Dwyer | Non-executive director | 26 April 2007 |
| Stuart Grimshaw | Non-executive director | 27 January 2010 |
| Dr Cherrell Hirst AO | Non-executive director | 8 February 2002 retired 16 April 2010 |
| Martin Kriewaldt | Non-executive director | 1 December 1996 retired 16 April 2010 |
| Ewoud Kulk | Non-executive director | 20 March 2007 |
| Geoffrey Ricketts | Non-executive director | 20 March 2007 |
| Dr Zygmunt Switkowski | Non-executive director | 19 September 2005 |
| Leo Tutt | Non-executive director | 20 March 2007 retired 28 October 2009 |
| | | |
| **Executive director** | | |
| Patrick Snowball | Group Chief Executive Officer | 1 September 2009 |
| | | |
| **Former executive director** | | |
| Chris Skilton | Acting Chief Executive Officer from 2 March 2009; formerly Chief Financial Officer | 13 November 2002 left office 31 August 2009 |
| | | |
| **Group Executives in office as at 30 June 2010** | | |
| Roger Bell | Chief Executive Officer, Vero New Zealand | 30 March 2007 |
| Dharma Chandran[1] | Acting Group Executive, Human Resources | 20 April 2010 |
| Anthony Day | Chief Executive Officer, Commercial Insurance | 21 October 2009 |
| David Foster | Chief Executive Officer, Suncorp Bank | 27 August 2008 |
| Mark Milliner | Chief Executive Officer, Personal Insurance | 1 July 2006 |
| | | Changed position 21 October 2010 |
| John Nesbitt | Group Chief Financial Officer | 3 May 2010 |
| Jeff Smith | Chief Executive Officer, Suncorp Business Services | 30 March 2007 |
| Robert Stribling | Group Chief Risk Officer | 4 January 2010 |
| Geoff Summerhayes | Chief Executive Officer, Suncorp Life | 26 May 2008 |
| | | |
| **Former Group Executives** | | |
| Scott Alomes | Group Executive, Human Resources | 23 November 2009 left office 19 March 2010 |
| Mark Blucher | Group Executive, Integration | 2 April 2007 left office 31 August 2009 |
| Andrew Harmer[1] | Acting Chief Risk Officer | 16 April 2009 left office 19 February 2010 |
| Clayton Herbert | Acting Chief Financial Officer | 2 March 2009 left office 30 April 2010, continues as Deputy Chief Financial Officer |
| Bernadette Inglis | Group Executive, Personal Insurance | 27 August 2008 left office 21 October 2009 |
| Stuart McDonald | Group Executive, Strategy, People and Corporate Services | 27 August 2008 left office 21 October 2009 |

1 seconded from Ernst & Young

## 2. Remuneration – audited (continued)

### 2.2 Key Management Personnel (continued)

Subsequent to the commencement of Mr Snowball as Group Chief Executive Officer, a number of the Group Executive position titles and responsibilities changed during 2010.

In July 2010, the appointment of Amanda Revis as Group Executive, Human Resources was announced. Her appointment is effective from 16 August 2010.

### 2.3 Remuneration components

Total remuneration for the SLT is either of a fixed or variable nature, with four key components shown in the table below.

**Fixed remuneration**

- consists of two components, being:
  - base remuneration, including base salary, salary sacrificed benefits and other fringe benefits; and
  - superannuation.
- is referred to as total employment cost (TEC).

**Variable remuneration**

- is remuneration that is considered to be 'at risk'
- is linked to both the individual's and the Group's performance
- consists of two components, being:
  - short-term incentives (STI); and
  - long-term incentives (LTI).

The table below provides a summary of each component of remuneration, as well as explaining how each links to performance.

| Remuneration component | | | Vehicle | Purpose |
|---|---|---|---|---|
| Fixed remuneration | 1 | Base remuneration | Base salary, salary sacrificed benefits and other benefits. | Positioned at a market-competitive level that reflects the size and complexity of the role, individual responsibilities, individual performance, experience and skills. |
| | 2 | Superannuation | Superannuation paid at a rate of 9% of the benefits base or the maximum contribution base set out in the *Superannuation Guarantee Act*, whichever is the lesser.[1] | Superannuation contributions paid according to statutory requirements. |
| Variable remuneration | 3 | Short-term incentives | Annual 'at risk' component of remuneration, subject to Group and individual performance.<br>Typically paid in cash, unless the member of the SLT nominates to have all or part of their award paid into superannuation or shares. | Rewards members of the SLT for their contribution to the Group and business unit outcomes. |
| | 4 | Long-term incentives | Performance rights that vest subject to performance hurdles being met.<br>Long-term 'at risk' component of remuneration, generally assessed over 3 to 5 years. | Rewards members of the SLT for their contribution to the creation of shareholder value over the longer term.<br>Vesting of awards is dependent on the Company's relative total shareholder return against a peer group of ASX-listed companies. |

1 Different legislation and approach to superannuation applies within New Zealand. Superannuation paid to Mr Bell is consistent with New Zealand legislation.

**Total employment cost**

Total employment cost (TEC) is reviewed each year in light of the Group's remuneration positioning policy, competitor practices and other business and role critical factors. As discussed in Section 2.1, external remuneration consultants support the Remuneration Committee in assessing market practice to ensure TEC is competitive.

In 2009 and 2010, no increases were made to SLT TEC, except where necessary to reflect increases in role scope. As a result, TEC levels for most members of the SLT have remained the same as 2008 levels.

Considering the last SLT TEC review was in April 2007, and in light of strengthening economic conditions, the Board has determined that SLT TEC will be reviewed, but not necessarily increased, in 2011 to maintain market competitiveness.

### Short-term incentives

The Group operates an annual STI program, designed to reward the contribution of members of the SLT in line with Group and individual performance. SLT target STI opportunity is typically positioned at an amount equivalent to 100% of TEC, with a maximum STI opportunity equivalent to 150% of TEC.

The size of the Group's STI pool available for distribution each year is determined by the Remuneration Committee, relative to financial and non-financial performance outcomes. A key measure of financial performance is determined by the Group's achievement against agreed profit targets set by the Board each year. The quality of the financial result, including factors such as the current economic environment, is also taken into account when determining the size of the Group STI pool.

### Performance objectives

SLT performance is assessed against agreed performance objectives and targets using a balanced scorecard approach. Financial and non-financial objectives reflect the performance focus of both the Group and the specific business unit.

### How is performance assessed?

The Group CEO and the Remuneration Committee assess each Group Executive's performance at the end of the financial year against the Group and business unit scorecards, assessing actual outcomes relative to the agreed targets. The overall performance assessment reflects both Group and business unit performance.

The Board believes that the Group and business unit focus, the key performance measures, targets and their relative weightings, combine to effectively motivate the SLT's short-term performance.

Examples of key performance measures included within the balanced scorecard for the SLT are set out in the table below.

| | |
|---|---|
| **Group performance objectives**<br>**Weighting:**<br>Group CEO: 100%<br>Group Executives: 70% | 1. Financial: Profit after tax<br>2. Risk management: Achieve maximum benchmark earnings targets and minimum debt rating<br>3. Capital management: Development and implementation of capital management plans and Internal Capital Adequacy Assessment Process (ICAAP)<br>4. Strategic development |
| **Business unit performance objectives**<br>**Weighting:**<br>Group Executives: 30% | Financial:<br>1. Performance against budget<br>2. Contribution to net profit – individual measures differ according to the specific role of the Group Executive, examples include:<br>3. Demonstration of leadership<br>4. Risk management<br>5. Customer satisfaction<br>6. Implementation of business plan<br>7. Project outcomes<br>8. Employee engagement and retention of key staff<br>9. Development of relationships with key regulators |

### Long-term incentives

LTI are designed to recognise the contribution of the SLT to the creation of shareholder value over the long term, delivered in the form of performance rights, and offered to members of the SLT who have a direct impact on the Group's long-term performance. LTI awards are provided through the Executive Performance Share Plan (EPSP). LTI recipients will not derive any value from their LTI grants unless challenging performance hurdles are met.

### What is a performance right?

A performance right entitles a participant to one fully paid ordinary share, at a set future point in time, provided specific performance hurdles are met.

### How are performance rights allocated?

Members of the SLT are offered performance rights which only vest subject to meeting performance hurdles. Each performance right that vests entitles the participant to one fully paid ordinary share.

When offers are made, the shares are bought on market to avoid any dilutionary impact that issuing new ordinary shares would have on the share price. The shares are acquired by the plan trustee and held in trust during the vesting period, and if applicable, any re-test period.

The value of LTI granted to the SLT is based on 100% of TEC. To determine the number of performance rights granted, the value of the LTI is divided by the five-day Volume Weighted Average Share Price (VWAP) over the five days preceding the date of grant.

### The performance hurdle – total shareholder return

Performance is measured by ranking the Company's total shareholder return (TSR) against a pre-determined group of peer companies (Peer Group). TSR represents the growth in share price, plus dividends reinvested (expressed as a percentage) over the relevant performance period. The ranking of the Company's TSR determines the extent to which performance rights vest.

The Peer Group chosen for relative TSR performance assessment is the top 50 ASX-listed companies in the S&P/ASX 100, excluding listed property trusts. This allows the Group's performance to be compared against similar companies in terms of size and investment profile.

Relative TSR provides a direct link between SLT reward and shareholder return over the long term and minimises the impact market cycles may have.

## 2. Remuneration – audited (continued)

### 2.3 Remuneration components (continued)

#### LTI vesting schedule

The SLT will not derive any value from the LTI component of their remuneration unless the Group's performance is greater than the median performance of the Peer Group. Performance rights vest in accordance with the LTI vesting schedule represented in the table below:

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

#### Performance period

The performance period extends for a period of three to five years and begins on the date the award is made, as outlined in the table below.

| | End year 3 initial period | End year 3 to end year 5<br>2-year re-test period | End year 5 |
|---|---|---|---|
| The performance period commences on the date of the award. | The first potential vesting date occurs.<br>If performance measures are met, the SLT can elect to:<br>1. exercise performance rights and convert them to shares, or<br>2. lock the performance rights in for an extended 2-year re-test period.<br>If performance measures are not met and the LTI does not vest, the SLT can elect to:<br>1. forfeit any future right to the performance right, or<br>2. lock the performance rights in for an extended 2-year re-test period. | Where a member of the SLT elects to extend the measurement period for 2 years, TSR is measured every 6 months between the measurement dates. | At the end of the re-test period, the most favourable TSR outcome from either the initial period or during the re-test period is applied to unvested performance rights.<br>After the re-test period, no further elections to re-test are available, and performance rights that do not vest are forfeited. |

The Board has determined that there will be no re-testing provision in any subsequent LTI grants.

#### TSR measurement

TSR performance is monitored by an independent expert at key points throughout the LTI life cycle as outlined in the table below. TSR performance may also be measured upon termination of an individual's contract of employment where the member of the SLT holds unvested performance rights when they cease employment. Further details of how LTIs are treated on termination are set out within the 'Treatment of LTI on termination' section below.

| Year 0<br>awards made | End year 3<br>initial period | End year 3 to end year 5<br>2-year re-test period |
|---|---|---|
| TSR measured annually at 30 June | TSR measured at the first vesting date (3 years after the grant date) | TSR measured every 6 months during the re-test period |

#### Dividends

The plan trustee manages any dividends that may be received during the time that the underlying shares are held in trust. If an individual's performance rights vest and shares are allocated to the individual, a payment equal to the dividends received by the trustee with respect to the underlying shares is paid at the same time that the shares are allocated to the individual (less applicable taxes that have been paid by the plan trustee with respect to the dividends).

#### Treatment of LTI on termination

If a member of the SLT ceases to be an employee of the Group for a 'qualifying reason' (meaning death, total and permanent disablement, retirement, redundancy as a result of a restructure within the Group, change of control of the Company or another reason as determined by the Board), any performance rights which have not vested remain 'on foot' and will vest subject to the terms of the grant (including in relation to performance conditions and lapse or forfeiture conditions), except that any allocation made will be pro-rated to reflect the proportion of the performance period actually worked, unless otherwise determined by the Board. 'On foot' means that the LTI will remain in the EPSP after the termination date, subject to the terms of the relevant grants, including both performance conditions and forfeiture conditions.

If a member of the SLT ceases to be an employee of the Company other than as a result of a 'qualifying reason' (defined above), any performance rights held, which have not vested, automatically lapse.

The Board has ultimate discretion over whether to allow the vesting of any performance rights. Where the Board exercises its discretion to allow unvested shares to vest at the termination date, performance is measured at the termination date. Where vesting occurs, the final award size is pro-rated for the period from the grant date to the date of termination.

**Group CEO's LTI terms**

The performance period and some other minor terms of the Group CEO's LTI award are different from the Group Executives' awards. Details of these differences are set out in Section 2.6 of this report.

**Alteration of the EPSP rules in 2010**

The Remuneration Committee reviewed and amended the terms and conditions of the EPSP rules in 2010 to allow the Board the discretion to satisfy a participant's entitlement upon vesting through a cash payment, in lieu of an allocation of ordinary shares.

**Hedging prohibition**

The Group's securities dealing policy extends to dealing in a financial product which operates to limit the economic risk of a holding in the Company's securities, including unvested EPSP performance rights.

Dealing in these types of financial products is prohibited unless the transaction has been approved by either the Chairman (for directors) or the Group CEO (for Group Executives) and the security is not an unvested EPSP performance right. All KMPs are reminded of this policy at least twice per year, usually in the month prior to the release of the Group's annual and half-year financial results.

While performance rights remain unvested, members of the SLT do not have an entitlement to the shares underlying the performance rights and the underlying shares are held in the name of the plan trustee. During this time the underlying shares therefore cannot be accessed by the individual.

Once performance rights have fully vested under the EPSP, the Chairman or Group CEO (as appropriate) must be notified when the underlying shares are withdrawn from the plan including details of how the individual intends to deal in the shares once they are released.

## 2.4 Remuneration and the link to performance

Remuneration is structured to motivate performance as well as to attract and retain talented employees. The portion of 'at risk' variable remuneration received by the SLT is dependent on achieving superior performance (both at an individual and Group level) and generating value for shareholders.

In 2009, the Group did not achieve target financial performance and therefore no value was delivered to the SLT during 2009 in terms of the 'at risk' variable remuneration components – STI and LTI.

However, given stronger performance by the Group in 2010, value will be delivered to the SLT under the STI program. In respect of LTI, the performance hurdle has not been met therefore no value will be delivered to the SLT in office at 30 June 2010.

**Company performance**

The operating and financial review in section 6 of the Directors' Report provides an analysis of the Group's performance in 2010.

The table below summarises the Group's performance over the five years to 30 June 2010:

| | Share performance | | | Earnings performance | | |
|---|---|---|---|---|---|---|
| **Year ended 30 June** | Closing share price[1] ($) | Dividend p/share (cents) | TSR[1] | Basic EPS (cents) | Profit for the year ($m) | Return on equity (%) |
| 2010 | 8.04 | 35 | 60 | 61.8 | 789 | 5.7 |
| 2009 | 6.70 | 40 | 48 | 31.6 | 353 | 2.7 |
| 2008 | 13.04 | 107 | 82 | 60.2 | 588 | 4.7 |
| 2007 | 20.17 | 107 | 119 | 158.6 | 1,064 | 8.6 |
| 2006 | 19.35 | 97 | 106 | 161.3 | 916 | 21.0 |

1 Closing share price, TSR as at 30 June (rebased at 100 at 1 June 2005)

**Company performance and short-term incentives**

The Group met its key short-term performance objectives during 2010, which resulted in value being delivered to the SLT under the STI program at an average of 69.7% of the total realisable STI maximum.

As outlined in section 2.3, STI outcomes are determined by the assessment of each member of the SLT's performance against predetermined financial and non-financial performance objectives. Actual STI payments for 2010 are represented in the table below. On average, 30.3% of the STI opportunity was forfeited.

## 2. Remuneration – audited (continued)

### 2.4 Remuneration and the link to performance (continued)

**STI awards for 2010**

| | Actual STI awarded $ | Maximum STI[1] $ | Actual STI award as % of maximum STI | % of maximum STI award forfeited |
|---|---|---|---|---|
| **Executive director and Group CEO** | | | | |
| Patrick Snowball[2,3] | 1,925,000 | 2,606,301 | 73.9% | 26.1% |
| **Group Executives** | | | | |
| Roger Bell[4] | 650,000 | 876,508 | 74.2% | 25.8% |
| Dharma Chandran[5] | – | – | – | – |
| Anthony Day[2] | 460,417 | 673,151 | 68.4% | 31.6% |
| David Foster | 700,000 | 1,050,000 | 66.7% | 33.3% |
| Mark Milliner | 750,000 | 1,125,000 | 66.7% | 33.3% |
| John Nesbitt[2] | 133,333 | 190,685 | 69.9% | 30.1% |
| Jeff Smith | 850,000 | 1,125,000 | 75.6% | 24.4% |
| Robert Stribling[2] | 300,000 | 436,438 | 68.7% | 31.3% |
| Geoff Summerhayes | 625,000 | 937,500 | 66.7% | 33.3% |
| **Former Group Executive** | | | | |
| Clayton Herbert[2] | 583,333 | 875,000 | 66.7% | 33.3% |

1 Maximum STI represents 150% of TEC for all Group Executives.
2 Individual was not a KMP for the full financial year 2010. Pro rata maximum STI is represented within the table, to reflect the maximum STI possible during the time the Group Executive was a KMP.
3 Mr Snowball's STI is paid in cash, with 50% deferred for two years. The value of STI awarded for 2010, before any deferral, is represented within the table above.
4 Mr Bell is remunerated in New Zealand dollars, amounts are disclosed in Australian dollars.
5 Mr Chandran is seconded to Suncorp from Ernst & Young and is not eligible for STI.
6 The maximum potential value of the 2010 STI awards for the Group CEO and Group Executives is the amount disclosed. A minimum level of performance must be achieved before any STI is awarded. Therefore, the minimum potential value of the STI for all participants in 2010 was nil.

No former Group Executives (other than as shown above) received an STI award.

### Company performance and long-term incentives

As in 2009, in 2010 the LTI performance hurdles were not met and the members of the SLT in office at 30 June 2010 derived no value in 2010 in relation to their LTI entitlements.

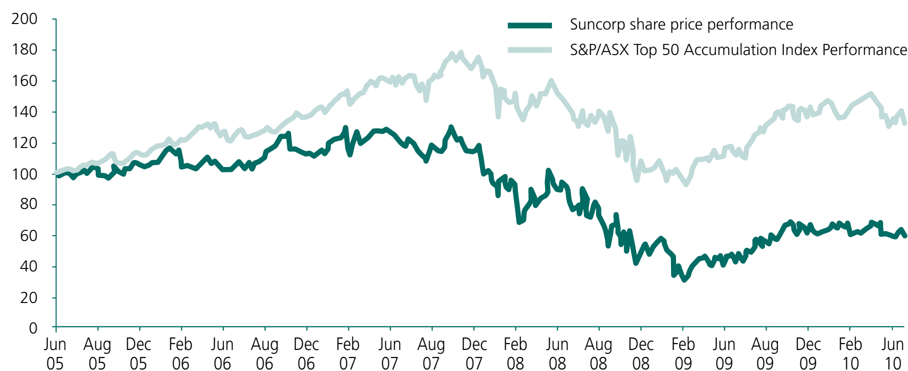
Ms Inglis, a former Group Executive, left office in October 2009. LTI grants from 2006, 2007 and 2008 were forfeited as the performance hurdles were not met. In respect of the 2009 LTI grant, the performance hurdle was met and a pro-rata allocation was made based on the proportion of the performance period worked.

As outlined in Section 2.3, vesting of LTI is based on relative TSR performance against the Peer Group. If the Company's TSR performance does not exceed the median of this Peer Group, LTI does not vest and the SLT members are not rewarded.

The graph below shows the Company's TSR performance relative to the S&P/ASX Top 50 Accumulation Index over the five years to 30 June 2010. The S&P/ASX Top 50 Accumulation Index is used as a proxy for the performance of the Peer Group.

### S&P/ASX Top 50 Accumulation Index and SUN share price

Return Index including net dividends
(both indices rebased at 100 at 01.06.2005)



## 2. Remuneration – audited (continued)

### 2.4 Remuneration and the link to performance (continued)

Information with respect to the movement of performance rights during 2010 and of current LTI grants held by the Group CEO and Group Executives (current and former) as at 30 June 2010 are outlined in the table below.

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

| | Performance rights granted | | | Fair value yet to vest | | Market value | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number | Date | Financial year in which grant may first vest | Min[1] | Max[2] | Market value at date of grant[3] | Market value at 30 June 2010[4] | Vested in year | Forfeited in year |
| | | | | $ | $ | $ | $ | % | % |
| **Executive director** | | | | | | | | | |
| Patrick Snowball | 300,000 | 1 October 2009 | 30 June 2013 | – | 1,902,000 | 2,646,000 | 2,412,000 | – | – |
| | 300,000 | 1 October 2009 | 30 June 2014 | – | 1,968,000 | 2,646,000 | 2,412,000 | – | – |
| | 300,000 | 1 October 2009 | 30 June 2015 | – | 2,025,000 | 2,646,000 | 2,412,000 | – | – |
| **Group Executives** | | | | | | | | | |
| Roger Bell | 23,813 | 1 April 2007 | 30 June 2010[5] | – | 271,706 | 495,310 | 191,457 | – | – |
| | 32,740 | 1 October 2007 | 30 June 2011 | – | 478,004 | 666,259 | 263,230 | – | – |
| | 64,272 | 1 October 2008 | 30 June 2012 | – | 277,655 | 617,654 | 516,747 | – | – |
| | 76,096 | 1 October 2009 | 30 June 2013 | – | 482,449 | 671,167 | 611,812 | – | – |
| Dharma Chandran[8] | – | – | – | – | – | – | – | – | – |
| Anthony Day | 9,543 | 1 October 2007 | 30 June 2011 | – | 139,328 | 194,200 | 76,726 | – | – |
| | 13,843 | 1 October 2008 | 30 June 2012 | – | 59,802 | 133,031 | 111,298 | – | – |
| | 17,092 | 1 October 2009 | 30 June 2013 | – | 108,363 | 150,751 | 137,420 | – | – |
| David Foster | 23,120 | 1 October 2006 | 30 June 2010[5] | – | 286,919 | 507,253 | 185,885 | – | – |
| | 763 | 17 April 2007[6] | 30 June 2010[5] | – | 5,945 | 16,382 | 6,135 | – | – |
| | 32,740 | 1 October 2007 | 30 June 2011 | – | 478,004 | 666,259 | 263,230 | – | – |
| | 64,272 | 1 October 2008 | 30 June 2012 | – | 277,655 | 617,654 | 516,747 | – | – |
| | 81,949 | 1 October 2009 | 30 June 2013 | – | 519,557 | 722,790 | 658,870 | – | – |
| Mark Milliner | 20,808 | 1 October 2006 | 30 June 2010[5] | – | 258,227 | 456,528 | 167,296 | – | – |
| | 686 | 17 April 2007[6] | 30 June 2010[5] | – | 5,344 | 14,728 | 5,515 | – | – |
| | 35,259 | 1 October 2007 | 30 June 2011 | – | 514,781 | 717,521 | 283,482 | – | – |
| | 69,216 | 1 October 2008 | 30 June 2012 | – | 299,013 | 665,166 | 556,497 | – | – |
| | 81,949 | 1 October 2009 | 30 June 2013 | – | 519,557 | 722,790 | 658,870 | – | – |
| John Nesbitt | 313,016 | 3 May 2010[7] | 30 June 2013 | – | 1,859,315 | 2,851,576 | 2,516,649 | – | – |
| Jeff Smith | 37,777 | 1 October 2007 | 30 June 2011 | – | 551,544 | 768,762 | 303,727 | – | – |
| | 74,160 | 1 October 2008 | 30 June 2012 | – | 320,371 | 712,678 | 596,246 | – | – |
| | 87,803 | 1 October 2009 | 30 June 2013 | – | 556,671 | 774,422 | 705,936 | – | – |
| Robert Stribling[8] | – | – | – | – | – | – | – | – | – |
| Geoff Summerhayes | 61,800 | 1 October 2008 | 30 June 2012 | – | 266,976 | 593,898 | 496,872 | – | – |
| | 73,169 | 1 October 2009 | 30 June 2013 | – | 463,891 | 645,351 | 588,279 | – | – |
| **Former executive director** | | | | | | | | | |
| Chris Skilton[9] | 38,610 | 1 October 2006 | 30 June 2010[5] | – | 479,150 | 847,103 | 310,424 | – | – |
| | 1,274 | 17 April 2007[6] | 30 June 2010[5] | – | 9,924 | 27,353 | 10,243 | – | – |
| | 50,370 | 1 October 2007 | 30 June 2011 | – | 735,402 | 1,025,030 | 404,975 | – | – |
| | 98,881 | 1 October 2008 | 30 June 2012 | – | 427,166 | 950,246 | 795,003 | – | – |

| | Performance rights granted | | | Fair value yet to vest | | Market value | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number | Date | Financial year in which grant may first vest | Min[1] | Max[2] | Market value at date of grant[3] | Market value at 30 June 2010[4] | Vested in year | Forfeited in year |
| | | | | $ | $ | $ | $ | % | % |
| **Former Group Executives** | | | | | | | | | |
| Scott Alomes[10] | 59,989 | 1 October 2009 | 30 June 2013 | – | – | 529,103 | – | – | 100 |
| Mark Blucher[11] | 28,900 | 1 October 2006 | 30 June 2010 | – | – | 634,066 | – | – | 100 |
| | 953 | 17 April 2007[6] | 30 June 2010 | – | – | 20,461 | – | – | 100 |
| | 40,296 | 1 October 2007 | 30 June 2011 | – | – | 820,024 | – | – | 100 |
| | 79,104 | 1 October 2008 | 30 June 2012 | – | – | 760,189 | – | – | 100 |
| Andrew Harmer[8] | – | – | – | – | – | – | – | – | – |
| Clayton Herbert | 6,196 | 1 October 2006 | 30 June 2010[5] | – | 67,819 | 135,940 | 49,816 | – | – |
| | 204 | 17 April 2007[6] | 30 June 2010[5] | – | 1,589 | 4,380 | 1,640 | – | – |
| | 11,081 | 1 October 2007 | 30 June 2011 | – | 161,783 | 225,498 | 89,091 | – | – |
| | 15,820 | 1 October 2008 | 30 June 2012 | – | 68,342 | 152,030 | 127,193 | – | – |
| | 46,828 | 1 October 2009 | 30 June 2013 | – | 296,890 | 413,023 | 376,497 | – | – |
| Bernadette Inglis[11] | 28,900 | 1 October 2006 | 30 June 2010 | – | – | 634,066 | – | – | 100 |
| | 953 | 17 April 2007[6] | 30 June 2010 | – | – | 20,461 | – | – | 100 |
| | 40,296 | 1 October 2007 | 30 June 2011 | – | – | 820,024 | – | – | 100 |
| | 79,104 | 1 October 2008 | 30 June 2012 | – | – | 760,189 | – | – | 100 |
| | 93,657 | 1 October 2009 | 30 June 2013 | – | – | 826,055 | – | 5 | 95 |
| Stuart McDonald[12] | 28,900 | 1 October 2006 | 30 June 2010 | – | – | 634,066 | – | – | 100 |
| | 953 | 17 April 2007[6] | 30 June 2010 | – | – | 20,461 | – | – | 100 |
| | 35,259 | 1 October 2007 | 30 June 2011 | – | – | 717,521 | – | – | 100 |
| | 69,216 | 1 October 2008 | 30 June 2012 | – | – | 665,166 | – | – | 100 |
| | 81,949 | 1 October 2009 | 30 June 2013 | – | 519,557 | 722,790 | 658,870 | – | – |

1 The minimum value of shares yet to vest is nil as the performance criteria or performance condition may not be met and consequently the shares may not vest.
2 The maximum value of shares yet to vest is determined as the fair value at grant date, assuming all performance criteria are met.
3 Market value at date of grant is calculated by the number of shares granted multiplied by the closing share price as traded on the Australian Securities Exchange (ASX) on the date of grant. Where the date of grant falls on an ASX non-trading day, the closing share price of the preceding trading day is used.
4 Market value as at 30 June 2010 is calculated by the number of shares granted multiplied by the closing share price as traded on ASX on 30 June 2010.
5 Individuals elected to extend the performance period by a further two years.
6 The grants made on 17 April 2007 relate to additional shares awarded (against each of their 'unvested' EPSP offers) to compensate for the loss in the value of their offered shares at the time of the acquisition of Promgroup Limited.
7 Mr Nesbitt received an off-cycle LTI grant as at 3 May 2010 as approved by the Board.
8 Does not hold LTI.
9 Performance rights remain 'on foot'.
10 Performance rights forfeited.
11 Performance rights were pro-rated based on the performance period worked and the performance hurdle tested. LTI grants from 2006, 2007 and 2008 were forfeited as the performance hurdle was not met. In respect of Ms Inglis' 2009 LTI grant the performance hurdle was met and a pro rata allocation was made based on the proportion of the performance period worked.
12 Performance rights were pro-rated based on the performance period worked and the performance hurdle tested. LTI grants from 2006, 2007 and 2008 were forfeited as the performance hurdle was not met. Mr McDonald's 2009 LTI grant remains 'on foot'.

## 2. Remuneration – audited (continued)

### 2.5 SLT remuneration disclosures in detail

This section provides full details of total remuneration for the SLT for 2010 and 2009, as required under the provisions of the *Corporations Act 2001*. Details of the SLT remuneration (calculated in accordance with applicable Accounting Standards) are set out in the table below.

**Remuneration of the SLT for the year ended 30 June 2010**

| | Short-term benefits | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Salary and fees | STI | Non-monetary benefits[1] | Other[2] | Post-employment benefits Superannuation benefits | Other long-term employee benefits[3] | Termination benefits[4] | Total excluding share-based payments |
| | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| **2010** | | | | | | | | |
| **Executive director** | | | | | | | | |
| Patrick Snowball (from 1 September 2009) | 1,748 | 963 | 40 | 371 | 9 | 294 | – | 3,425 |
| **Group Executives** | | | | | | | | |
| Roger Bell[6] | 467 | 650 | 1 | (60) | 88 | – | – | 1,146 |
| Dharma Chandran (from 20 April 2010)[8] | 250 | – | – | – | – | – | – | 250 |
| Anthony Day (from 21 October 2009)[7] | 377 | 460 | – | 17 | 10 | – | – | 864 |
| David Foster | 683 | 700 | 1 | 16 | 23 | 16 | – | 1,439 |
| Mark Milliner | 717 | 750 | 1 | 31 | 22 | 35 | – | 1,556 |
| John Nesbitt (from 3 May 2010) | 132 | 133 | – | 10 | 4 | – | – | 279 |
| Jeff Smith | 730 | 850 | 1 | 21 | 25 | – | – | 1,627 |
| Robert Stribling (from 4 January 2010) | 290 | 300 | – | 22 | 7 | – | – | 619 |
| Geoff Summerhayes | 579 | 625 | 1 | (14) | 50 | – | – | 1,241 |
| **Former Executive director** | | | | | | | | |
| Chris Skilton (to 31 August 2009) | 151 | – | – | 110 | 34 | 9 | 1,260 | 1,564 |
| **Former Group Executives** | | | | | | | | |
| Scott Alomes (from 23 November 2009 to 19 March 2010) | 165 | – | – | 76 | 5 | – | 117 | 363 |
| Mark Blucher (to 31 August 2009) | 131 | – | – | 11 | 4 | 12 | 1,600 | 1,758 |
| Andrew Harmer (to 19 February 2010)[8] | 757 | – | – | – | – | – | – | 757 |
| Clayton Herbert (to 30 April 2010)[9] | 323 | 583 | – | 265 | 21 | 5 | – | 1,197 |
| Bernadette Inglis (to 21 October 2009) | 318 | – | 31 | 21 | 17 | 7 | 1,017 | 1,411 |
| Stuart McDonald (to 21 October 2009) | 348 | – | 65 | 28 | 7 | 14 | 875 | 1,337 |

## Remuneration of the SLT for the year ended 30 June 2010

| | Share-based payments[5] | Performance related |
|---|---|---|
| | $000 | % |
| **2010** | | |
| **Executive director** | | |
| Patrick Snowball (from 1 September 2009) | 1,148 | 52.6 |
| **Group Executives** | | |
| Roger Bell[6] | 336 | 66.5 |
| Dharma Chandran (from 20 April 2010)[8] | – | – |
| Anthony Day (from 21 October 2009)[7] | 58 | 56.2 |
| David Foster | 342 | 59.4 |
| Mark Milliner | 354 | 59.6 |
| John Nesbitt (from 3 May 2010) | 103 | 61.8 |
| Jeff Smith | 356 | 60.8 |
| Robert Stribling (from 4 January 2010) | – | 48.5 |
| Geoff Summerhayes | 205 | 57.4 |
| **Former Executive director** | | |
| Chris Skilton (to 31 August 2009) | 839 | 35.3 |
| **Former Group Executives** | | |
| Scott Alomes (from 23 November 2009 to 19 March 2010) | – | – |
| Mark Blucher (to 31 August 2009) | 209 | 11.2 |
| Andrew Harmer (to 19 February 2010)[8] | – | – |
| Clayton Herbert (to 30 April 2010)[9] | 109 | 53.0 |
| Bernadette Inglis (to 21 October 2009) | 1,129 | 44.7 |
| Stuart McDonald (to 21 October 2009) | 678 | 34.3 |

1 Non-monetary benefits include the cost to the Group of providing certain fringe benefits. Where those costs represent fringe benefits for motor vehicle leases, these costs are met by the employee through salary sacrifice.

2 Other includes higher duties allowance ($500,000 per annum) for Mr Skilton's role as Acting CEO and for Mr Herbert ($300,000 per annum) for his role as Acting CFO. Also includes annual leave accrued or utilised during the year.

3 Other long-term employee benefits represent long service leave accrued during the year and the amount expensed to the income statement in relation to the deferred element of Mr Snowball's STI. Mr Snowball was awarded a deferred STI of $962,500 and this amount is discounted and amortised over the service period as outlined in section 2.6.

4 Termination benefits are paid in accordance with contractual commitments. In addition to termination benefits paid in accordance with contractual commitments:
   a. Mr Skilton received a special duties allowance, which was subject to the achievement of pre-determined performance measures, of $260,000
   b. Ms Inglis received a pro-rated STI payment for 2010 of $166,667 and
   c. Mr McDonald received a pro-rated STI payment for 2010 of $175,000.

5 Performance rights issued as LTI to members of the SLT are expensed to the income statement based on their fair value at grant date over the period from grant date to vesting date. The fair value was assessed using a Monte Carlo model and reflects the fact that an individual's entitlement to the shares is dependent on relative TSR performance. The assumptions underpinning these valuations are set out in note 26 to the financial statements.

6 Mr Bell is remunerated in New Zealand dollars, amounts are disclosed in Australian dollars.

7 Mr Day became a member of the SLT on 21 October 2009. Remuneration disclosed relates only to his period in office.

8 Mr Chandran is and Mr Harmer was seconded from Ernst & Young. Remuneration disclosed reflects the fees paid to Ernst & Young.

9 Mr Herbert left office on 30 April 2010 at the end of his secondment to the Acting Chief Financial Officer position. He continues in the Deputy CFO position.

## 2. Remuneration – audited (continued)

### 2.5 SLT remuneration disclosures in detail (continued)

**Remuneration of the SLT for the year ended 30 June 2009**

| | Short-term benefits | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Salary and fees | STI[1] | Non-monetary benefits[2] | Other[3] | Post-employment benefits Superannuation benefits | Other long-term employee benefits[4] | Termination benefits[5] | Total, excluding share-based payments |
| | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| **2009** | | | | | | | | |
| **Executive director** | | | | | | | | |
| Patrick Snowball | – | – | – | – | – | – | – | – |
| **Group Executives** | | | | | | | | |
| Roger Bell[7] | 460 | – | 42 | 3 | 89 | – | – | 594 |
| Dharma Chandran | – | – | – | – | – | – | – | – |
| Anthony Day | – | – | – | – | – | – | – | – |
| David Foster | 632 | – | 29 | (22) | 65 | 62 | – | 766 |
| Mark Milliner | 642 | – | 11 | (28) | 101 | 11 | – | 737 |
| John Nesbitt | – | – | – | – | – | – | – | – |
| Jeff Smith | 700 | – | 14 | 29 | 50 | – | – | 793 |
| Robert Stribling | – | – | – | – | – | – | – | – |
| Geoff Summerhayes | 611 | – | – | 16 | 14 | – | – | 641 |
| **Former executive directors** | | | | | | | | |
| John Mulcahy (to 2 March 2009) | 1,274 | – | 21 | (48) | 67 | (174) | 2,100 | 3,240 |
| Chris Skilton[3] | 995 | – | – | 182 | 14 | 16 | – | 1,207 |
| **Former Group Executives** | | | | | | | | |
| Scott Alomes | – | – | – | – | – | – | – | – |
| Robert Belleville (to 29 November 2008) | 323 | – | – | (25) | 53 | 19 | 1,370 | 1,740 |
| Mark Blucher | 750 | – | – | (9) | 50 | 12 | – | 803 |
| Andrew Harmer[8] | 320 | – | – | – | – | – | – | 320 |
| Clayton Herbert[3] (from 2 March 2009) | 138 | – | 15 | 101 | 5 | 2 | – | 261 |
| Bernadette Inglis | 786 | – | 17 | 46 | 14 | 13 | – | 876 |
| Stuart McDonald | 686 | – | 26 | (32) | 14 | 17 | – | 711 |

Remuneration of the SLT for the year ended 30 June 2009

| | Share-based payments[6] | Performance related |
|---|---|---|
| | $000 | % |
| **2009** | | |
| **Executive director** | | |
| Patrick Snowball | – | – |
| **Group Executives** | | |
| Roger Bell[7] | 274 | 31.5 |
| Dharma Chandran | – | – |
| Anthony Day | – | – |
| David Foster | 279 | 26.7 |
| Mark Milliner | 279 | 27.5 |
| John Nesbitt | – | – |
| Jeff Smith | 190 | 19.3 |
| Robert Stribling | – | – |
| Geoff Summerhayes | 67 | 9.4 |
| **Former Executive directors** | | |
| John Mulcahy (to 2 March 2009) | 6,167 | 65.6 |
| Chris Skilton[3] | 530 | 30.5 |
| **Former Group Executives** | | |
| Scott Alomes | – | – |
| Robert Belleville (to 29 November 2008) | 1,009 | 36.7 |
| Mark Blucher | 410 | 33.8 |
| Andrew Harmer[8] | – | – |
| Clayton Herbert[3] (from 2 March 2009) | 26 | 9.1 |
| Bernadette Inglis | 410 | 31.9 |
| Stuart McDonald | 347 | 32.8 |

1 No amounts vested in relation to the financial year ended 30 June 2009.
2 Non-monetary benefits include the cost to the Group of providing certain fringe benefits. Where those costs represent fringe benefits for motor vehicle leases, these costs are met by the employee through salary sacrifice.
3 Other includes higher duties allowance ($500,000 per annum) for Mr Skilton's role as Acting CEO and for Mr Herbert ($300,000 per annum) for his role as Acting CFO. Also includes annual leave accrued or utilised during the year.
4 Other long-term employee benefits represent long service leave accrued during the year.
5 Termination benefits are paid in accordance with contractual commitments.
6 Performance rights issued as LTI to members of the SLT are expensed to the income statement based on their fair value at grant date over the period from grant date to vesting date. The fair value was assessed using a Monte Carlo model and reflects the fact that an individual's entitlement to the shares is dependent on relative TSR performance. The assumptions underpinning these valuations are set out in note 26 to the financial statements.
7 Mr Bell is remunerated in New Zealand dollars, amounts are disclosed in Australian dollars.
8 Mr Harmer was seconded from Ernst & Young. Remuneration disclosed reflects the fees paid to Ernst & Young.

## 2. Remuneration – audited (continued)

### 2.6 Contractual arrangements

**Group CEO**

Mr Snowball was appointed Managing Director and CEO effective 1 September 2009, with a position title change to Group CEO effective 17 April 2010. Mr Snowball is employed by Suncorp Metway Staff Pty Limited, a wholly-owned subsidiary of the Company. His contract of employment provides for a four-year term (Term). At the expiry of the Term, the parties can agree to extend the Term for a further 12 months. The Term may be extended in this way on more than one occasion.

The following table summarises the notice periods and payments required upon termination:

| | Notice period | Payment in lieu of notice | Treatment of STI on termination | Treatment of LTI on termination |
|---|---|---|---|---|
| **Employer-initiated termination** | | | | |
| In cases other than misconduct or other circumstances justifying summary dismissal | 12 months | When notice is required, the Company may make a payment in lieu of notice of all or part of any notice period, calculated based on a percentage of the Group CEO's TEC. | Board discretion | Board discretion[1] |
| Where individual becomes incapacitated, is of unsound mind or health deteriorates to a certain degree | 9 months | | Board discretion | Board discretion[1] |
| For poor performance | 3 months | | Deferred STI award forfeited | Unvested awards under Initial Grant forfeited |
| Misconduct or other circumstances justifying summary dismissal | None | | Deferred STI award forfeited | Unvested awards under Initial Grant forfeited |
| **Employee-initiated termination** | | | | |
| Generally | 6 months | | Deferred STI award forfeited | Unvested awards under Initial Grant forfeited |

1 Any deferred STI award and any unvested performance rights under the Initial Grant (defined below) will continue until the relevant vesting dates and subject to the performance measures, unless the Board exercises its discretion otherwise. In the case of the Initial Grant of performance rights, the number of performance rights that will continue to be available will depend on when the termination of employment occurs: after one year of service 300,000 will be available, after two years service 600,000 will be available and after three years service 900,000 will be available.

Where a change of control occurs, subject to the satisfaction of applicable performance measures:

- deferred STI and a pro rata award of current year STI may be awarded; and
- unvested LTI may vest pro rata.

**STI terms**

50% of any STI awarded to the Group CEO will be paid in cash and the balance will be deferred for two years. The deferred component will be subject to reduction or forfeiture in certain circumstances (including where there has been a failure to follow risk management policies and practices).

### LTI entitlement

The Group CEO's full LTI entitlement for the 2010, 2011 and 2012 financial years comprises an initial grant of 900,000 performance rights to shares in the Company (Initial Grant) under the EPSP. The Initial Grant of performance rights was made in three equal tranches. Vesting of the Initial Grant will be subject to the performance conditions outlined in Section 2.3 and will be tested over a three to five-year period.

The performance period for each tranche is summarised in the table below.

| Tranche 1 | Tranche 2 | Tranche 3 |
| --- | --- | --- |
| – Performance period began: 1 October 2009.<br>– Performance period ends on either: 30 September 2012 (initial period), 30 September 2013 (second period) or 30 September 2014 (final period).<br>– At the end of the initial period, the Group CEO can elect to accept the performance result or extend the performance period a further 12 months.<br>– If the initial period is extended, the Group CEO can elect to accept the performance result at the end of the second period or extend the performance period for a further 12 months.<br>– If the second period is extended, the number of shares to be allocated at the end of the final period will be based on the highest performance measure result recorded at the end of any of the prescribed performance periods for Tranche 1. | – Performance period began: 1 October 2009.<br>– Performance period ends on either: 30 September 2013 (initial period) or 30 September 2014 (final period).<br>– At the end of the initial period for Tranche 2, the Group CEO can elect to accept the performance result or extend the performance period for a further 12 months.<br>– If the initial period is extended, the number of shares to be allocated at the end of the final period will be based on the highest performance measure result recorded at the end of any of the performance periods for Tranche 2. | – Performance period began: 1 October 2009.<br>– Performance period ends: 30 September 2014. |

### Group Executives

Group Executives are employed either by Suncorp Metway Staff Pty Limited or Vero Insurance New Zealand Limited, both of which are wholly-owned subsidiaries of the Company, under a standard employment contract with no fixed term with the exception of Mr Stribling whose contract provides for a two-year term.

Group Executives' contracts may be terminated at any time provided that the notice period is given or paid out in lieu, based on benefits base (TEC less superannuation contributions) plus the value of other accrued benefits. Exceptions to this, where payments in lieu of notice are based on a percentage of TEC, are noted in the table below, which outlines the terms and conditions of Group Executives' contracts.

## 2. Remuneration – audited (continued)

### 2.6 Contractual arrangements (continued)

**Key terms of Group Executives' contracts**

| Group Executive | Notice on resignation (employee-initiated) | Notice on termination (employer-initiated) | Redundancy remuneration (including notice) | STI payment on termination | LTI on termination[1] |
|---|---|---|---|---|---|
| **Standard terms** | | | | | |
| All Group Executives | 3 months | 12 months | 12 months | Board discretion | Pro rata if qualifying reason |
| **Exceptions** | | | | | |
| Roger Bell[2] | 3 months | 116 weeks | 116 weeks | Board discretion | Pro rata if qualifying reason |
| Geoff Summerhayes | 3 months | 12 months | Greater of 12 months or total benefit under the redundancy policy (maximum of 75 weeks including notice) | Board discretion | Pro rata if qualifying reason |
| Robert Stribling[3] | 3 months | 12 months | None | Board discretion | Treatment of LTI entitlement dependent on when contract terminated[3] |

1 LTI treatment on termination and situations where qualifying reasons may be applicable are outlined in full within Section 2.3 of this report.

2 Mr Bell is entitled to additional pension benefits in the event of termination. Additional benefits include 20% of earned pensionable service, and funding allowing pension payments to commence at age 55 years with no early retirement reduction factor.

3 Treatment of LTI on termination for Mr Stribling varies according to when his contract is terminated:
- if his employment expires at the end of the initial two-year appointment term (i.e. on 3 January 2012), any performance rights that have been granted continue 'on foot' until the relevant vesting date
- if his employment is terminated for any other reason prior to the expiry of the initial two-year appointment term, any performance rights that have not yet vested will be forfeited; and
- if his employment continues after the end of the initial two-year appointment term and is subsequently terminated, any performance rights that have not yet vested will lapse if termination is not for a qualifying reason and if for a qualifying reason, the performance rights would vest on a pro rata basis.

Notice on termination by the Company is not required in the event of serious misconduct by the Group Executive. Payment on termination will include payment of accrued annual leave and, where appropriate, long service leave in the case of redundancy.

Mr Chandran is on secondment from Ernst & Young. The terms of this secondment are set out in a consultancy agreement between the Company and Ernst & Young and may be terminated, by either party, with 14 days notice.

## 3. Non-executive director arrangements – audited

### 3.1 Remuneration structure

#### Remuneration policy

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

#### Fee structure

In April 2007, shareholders approved a maximum aggregate total remuneration limit of $3,500,000 for all non-executive directors. The limit includes superannuation contributions but excludes retirement benefits. In addition:

- directors receive fixed pay only, paid as directors' fees and do not participate in performance-based incentive plans
- although directors of the parent company are also directors of the Group's major operating subsidiary companies, no additional fees are paid for membership of those boards; and
- the Company pays the superannuation guarantee (SG) on behalf of all eligible non-executive directors. If a director ceases to be eligible for SG payments, the equivalent amount is paid in fees. The SG payments for non-executive directors are included in the maximum aggregate total remuneration limit referred to above.

The non-executive director fee structure was reviewed in July 2010 and the approved fee structures for 2010 and 2011 are set out in the table below.

| Role | 2010 fee p.a.[1] $000 | 2011 fee p.a.[1] $000 |
|---|---|---|
| Chairman | 550 | 550 |
| Non-executive director base fee | 200 | 200 |
| Loading for Audit Committee Chairman | 50 | 50 |
| Loading for Audit Committee member | 20 | 25 |
| Loading for Risk Committee Chairman | 40 | 40 |
| Loading for Risk Committee member | 20 | 20 |
| Loading for Remuneration Committee Chairman | 20 | 30 |
| Loading for Remuneration Committee member | 10 | 15 |
| Loading for Chairmanship of New Zealand company boards | 20[3] | 50 |
| Loading for Chairmanship of New Zealand joint venture | 20[2] | 20 |

1 fees exclude superannuation guarantee
2 effective 5 February 2010
3 effective 1 May 2010

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

The NEDSP was established in November 2001, following shareholder approval, to facilitate the purchase of shares by directors by nominating a percentage of their pre-tax remuneration to be used to buy the Company's shares on market at pre-determined dates.

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

### 3.3 Non-executive directors' retirement benefits

Shareholders approved a directors' retirement plan (Plan) which entitles directors to be paid a retirement benefit based on the highest total emoluments paid to a director during any consecutive three-year period.

However, those retirement benefit arrangements have been phased out in the following manner:

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

During the course of the financial year ended 30 June 2009, the Minimum Retirement Benefit Limit was reached for all Participating Directors, therefore no further amortisation of retirement benefits occurred during 2010.

Accordingly, those Participating Directors remaining in office at the date of this report are entitled to receive as a retirement benefit, an amount equal to 25% of the total emoluments they received as a director over the period from the date of their appointment as a director to 30 June 2004.

The amount of retirement benefits paid to retiring directors during the year under the terms of the Plan (if any) and full details of directors' benefits and interests are set out in the table below.

## 3. Non-executive director arrangements – audited (continued)

### 3.4 Remuneration details

Details of non-executive directors' remuneration for 2010 and 2009 are set out in the table below.

| | Short-term benefits | | | Post-employment benefits | | |
|---|---|---|---|---|---|---|
| | Salary and fees | Shares[1] | Non-monetary benefits[2] | Superannuation benefits | Retirement Benefits[3] | Total[4] |
| | $000 | $000 | $000 | $000 | $000 | $000 |
| **Non-executive directors in office as at 30 June 2010** | | | | | | |
| John Story (Chairman) | | | | | | |
| **2010** | **550** | **–** | **1** | **50** | **–** | **601** |
| 2009 | 450 | 100 | – | 50 | – | 600 |
| William Bartlett | | | | | | |
| **2010** | **252** | **–** | **1** | **23** | **–** | **276** |
| 2009 | 250 | – | – | 23 | – | 273 |
| Dr Ian Blackburne | | | | | | |
| **2010** | **240** | **–** | **1** | **22** | **–** | **263** |
| 2009 | 240 | – | – | 22 | – | 262 |
| Paula Dwyer | | | | | | |
| **2010** | **223** | **–** | **1** | **17** | **–** | **241** |
| 2009 | 220 | – | – | 20 | – | 240 |
| Stuart Grimshaw (Appointed 27 January 2010) | | | | | | |
| **2010** | **98** | **–** | **–** | **9** | **–** | **107** |
| 2009 | – | – | – | – | – | – |
| Ewoud Kulk | | | | | | |
| **2010** | **211** | **–** | **1** | **45** | **–** | **257** |
| 2009 | 140 | – | – | 100 | – | 240 |
| Geoffrey Ricketts | | | | | | |
| **2010** | **225** | **–** | **1** | **20** | **–** | **246** |
| 2009 | 220 | – | – | 20 | – | 240 |
| Dr Zygmunt Switkowski | | | | | | |
| **2010** | **240** | **–** | **1** | **22** | **–** | **263** |
| 2009 | 192 | – | – | 70 | – | 262 |
| **Non-executive directors retired during 2010** | | | | | | |
| Dr Cherrell Hirst AO (Retired 16 April 2010)[4] | | | | | | |
| **2010** | **183** | **–** | **–** | **16** | **56** | **255** |
| 2009 | 182 | 50 | – | 19 | – | 251 |
| Martin Kriewaldt (Retired 16 April 2010)[4] | | | | | | |
| **2010** | **179** | **–** | **–** | **12** | **226** | **417** |
| 2009 | 220 | – | – | 20 | (25) | 215 |
| Leo Tutt (Retired 28 October 2009) | | | | | | |
| **2010** | **77** | **–** | **–** | **7** | **–** | **84** |
| 2009 | 230 | – | – | 21 | – | 251 |

1 For non-executive directors, the shares were acquired under the NEDSP and funded by pre-tax remuneration. No performance criteria are attached to these shares.

2 The non-executive directors receive a non-monetary benefit in relation to a proportion of the directors' and officers' insurance policy premium pro-rated for time in office. The amounts for both the current and prior year are below $1,000 per individual.

3 The provision of retirement benefits ceased on 1 July 2005; however, two non-executive directors who held office prior to that date retain an entitlement to a retirement benefit. The figure represented within the Retirement Benefits column reflects the value of retirement benefit payments in 2010, and the reduction in benefit in 2009.

4 None of the remuneration paid to non-executive directors is performance-based, refer to section 3.1.

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

**John D Story**
Chairman

**Patrick J R Snowball**
Managing Director

Brisbane
25 August 2010

# Lead Auditor's Independence Declaration

## Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001* to the Directors of Suncorp-Metway Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 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.

**KPMG**

**Paul Reid**
Partner

Brisbane
25 August 2010

# Corporate Governance Statement

The Board of Directors of Suncorp-Metway Ltd (the Company) is responsible for the corporate governance of the Company and its subsidiaries (Group). This statement outlines the principal corporate governance practices and policies that the Board has established to ensure the interests of shareholders are protected and the confidence of the investment market in the Company is maintained. These practices and policies were in place throughout the 2010 financial year (unless otherwise stated) and are current as at the date of this Statement, which is 25 August 2010.

In establishing the corporate governance framework, the Board has considered various governance standards, including the *Corporate Governance Principles and Recommendations* published by the Australian Securities Exchange (ASX) Corporate Governance Council in March 2003 and revised in August 2007 (Recommendations).

The Recommendations articulate core principles and practices that the ASX Corporate Governance Council believes underlie good corporate governance and all listed companies are required to disclose the extent to which they depart from these Recommendations.

The Recommendations, and the relevant sections of this Statement which address each of the Recommendations, are summarised in the table below.

| Principles and recommendations | | Relevant section(s) | Comply? |
|---|---|---|---|
| **Principle 1 – Lay solid foundations for management and oversight** | | | |
| 1.1 | Establish and disclose the functions reserved to the Board and those delegated to management. | Parts 1.1 and 3.1 | yes |
| 1.2 | Disclose the process for evaluating the performance of senior executives. | Part 3.2 | yes |
| 1.3 | Provide the information indicated in the guide to reporting on Principle 1. | Parts 1.2, 3.1 and 3.2 | yes |
| **Principle 2 – Structure the Board to add value** | | | |
| 2.1 | A majority of the Board should be independent directors. | Part 1.5 | yes |
| 2.2 | The chairperson should be an independent director. | Parts 1.3 and 1.5 | yes |
| 2.3 | The roles of chairperson and Chief Executive Officer should not be exercised by the same individual. | Part 1.3 | yes |
| 2.4 | The Board should establish a Nomination Committee consisting of a minimum of three members, the majority being independent directors. | Part 2 | yes |
| 2.5 | Disclose the process for evaluating the performance of the Board, its committees and individual directors. | Parts 1.9 and 1.10 | yes |
| 2.6 | Provide the information indicated in the guide to reporting on Principle 2. | Parts 1.3, 1.5, 1.8, 1.9, 1.10 and Part 2 | yes |
| **Principle 3 – Promote ethical and responsible decision-making** | | | |
| 3.1 | Establish a code of conduct to guide the directors, the Chief Executive Officer, the Chief Financial Officer and any other key executives as to:<br>3.1.1 the practices necessary to maintain confidence in the Company's integrity<br>3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of stakeholders; and<br>3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Part 5.3 | yes |
| 3.2 | Disclose the policy concerning trading in Company securities by directors, senior executives and employees. | Part 5.2 | yes |
| 3.3 | Provide the information indicated in the guide to reporting on Principle 3. | Part 5 | yes |
| **Principle 4 – Safeguard integrity in financial reporting** | | | |
| 4.1 | The Board should establish an Audit Committee. | Part 2 | yes |
| 4.2 | Structure the Audit Committee so that it:<br>– consists only of non-executive directors<br>– consists of a majority of independent directors<br>– is chaired by an independent chair, who is not a chair of the Board; and<br>– has at least three members. | Part 2 | yes |
| 4.3 | The Audit Committee should have a formal charter. | Part 2 | yes |
| 4.4 | Provide the information indicated in the guide to reporting on Principle 4. | Parts 2 and 4.4 | yes |
| **Principle 5 – Make timely and balanced disclosure** | | | |
| 5.1 | Establish and disclose written policies and procedures designed to ensure accountability at a senior management level for compliance with ASX disclosure requirements. | Part 5.4 | yes |
| 5.2 | Provide the information indicated in the guide to reporting on Principle 5. | Part 5.4 | yes |

| Principles and recommendations | | Relevant section(s) | Comply? |
|---|---|---|---|
| **Principle 6 – Respect the rights of shareholders** | | | |
| 6.1 | Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings. | Part 5.4 | yes |
| 6.2 | Provide the information indicated in the guide to reporting on Principle 6. | Part 5.4 | yes |
| **Principle 7 – Recognise and manage risk** | | | |
| 7.1 | Establish policies for the oversight and management of material business risks and disclose a summary of those policies. | Part 4 | yes |
| 7.2 | Require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to the Board on whether those risks are being managed effectively. | Parts 3.1; 4.2 and 4.3 | yes |
| 7.3 | Disclose whether the Board has received assurance from the chief executive officer and the chief financial officer that the declaration provided under s295A of the *Corporations Act 2001* (Cth) is founded on a sound system of risk management and internal control that is operating effectively in all material respects in relation to financial reporting risks. | Part 4.2 | yes |
| 7.4 | Provide the information indicated in the guide to reporting on Principle 7. | Part 4 | yes |
| **Principle 8 – Remunerate fairly and responsibly** | | | |
| 8.1 | The Board should establish a Remuneration Committee. | Part 2 | yes |
| 8.2 | Distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | Part 5.1 | yes |
| 8.3 | Provide the information indicated in the guide to reporting on Principle 8. | Parts 2 and 5.1 | yes |

The Group's corporate governance policies, procedures and practices have been developed and implemented by the Board and management over many years and are consistent with the Recommendations. During the 2009/10 financial year there were no departures from the Recommendations which should be disclosed to shareholders.

## Part 1. Board of Directors

### 1.1 Role of the Board

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

The Group conducts a diverse and complex range of business including banking, general insurance, life insurance and funds management, which means an important feature of the Board's work is to monitor compliance with the prudential and solvency requirements of the Australian Prudential Regulation Authority (APRA).

Therefore, directors of the Company also undertake roles as directors of Asteron Life Limited, Australian Associated Motor Insurers Limited, Australian Alliance Insurance Company Limited, Promgroup Limited, Suncorp Metway Insurance Ltd, GIO General Limited, Suncorp Life & Superannuation Limited and Vero Insurance Limited, which are all subject to APRA regulation.

The Group's operations also extend to New Zealand and Mr Geoffrey Ricketts, a director of Suncorp-Metway Ltd, was also a director and Chairman of the Group's major operating entities in New Zealand over the course of the year.

### 1.2 Responsibilities of the Board

The Board has adopted a Board Charter, which sets out the principles for the operation of the Board of Directors and provides a description of the functions and responsibilities of the Board and the functions delegated to management. A copy of that charter is available on the Company's website under 'Corporate Governance'.

The key functions of the Board are summarised below:

- approve the strategic direction and related objectives for the Group
- approve annual budgets, dividend policy and dividend payments
- monitor financial performance and executive management performance in the implementation and achievement of strategic and business objectives
- monitor the process whereby business risks are identified and approve systems and controls to manage those risks and monitor compliance
- appoint and remove the Managing Director/Chief Executive Officer (the Group CEO) and approve the appointment and removal of executives reporting directly to the Group CEO (Group Executives)
- approve the remuneration arrangements of the Group CEO and Group Executives, including measures of performance, and performance targets, and manage succession plans for the Group CEO
- determine and approve the level of authority to be granted to the Group CEO in respect of operating and capital expenditure and credit facilities
- authorise the further delegation of those authorities to management by the Group CEO; and
- approve major operating and capital expenditure and credit facilities in excess of the limits delegated to management.

### 1.3 Composition of the Board

The Board Charter contains the following guidelines on Board composition:

- the Board shall comprise no more than 13 directors and no fewer than seven
- a majority of directors must be independent, non-executive directors; and
- the directors shall appoint, as Chairman of the Board, one of the non-executive directors deemed by the Board to be independent.

At the date of this Statement, the Board comprises eight non-executive directors and one executive director (the Group CEO Patrick Snowball). The names of directors, including details of their qualifications and experience, are set out in the Directors' Report.

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

- The Company's Constitution provides that at every Annual General Meeting one third of the directors, excluding the Group CEO, shall retire from office but may stand for re-election.

  Directors offering themselves for re-election are subject to a performance assessment, conducted by the Nomination Committee at the end of the financial year immediately preceding the director's retirement date. That assessment is based largely on the outcomes of the annual Board appraisal which includes assessments of individual director performance.

  Subject to the outcome of that assessment, the Board then confirms to shareholders whether it supports the re-election of each retiring director in a statement that accompanies the Notice of Meeting.
- Board composition is reviewed periodically by the Nomination Committee, either when a vacancy arises or if it is considered that the Board would benefit from the services of a new director, given the Board's existing mix of skills and experience and the ongoing need to align those skills with the strategic demands of the Group.

  It is also considered important to maintain an appropriate mix between long serving directors with first-hand knowledge of the Group's businesses and corporate history, and new directors who bring new perspectives to the role.

  The period of office held by each of the directors as at the date of this Statement is as follows:

| Director | Term in office |
|---|---|
| John Story (Chairman) | 15 years 7 months |
| William Bartlett | 7 years 2 months |
| Ian Blackburne | 10 years 1 month |
| Paula Dwyer | 3 years 4 months |
| Stuart Grimshaw | 7 months |
| Ewoud Kulk | 3 years 5 months |
| Geoffrey Ricketts | 3 years 5 months |
| Zygmunt Switkowski | 5 years |
| Patrick Snowball | 1 year |

- A Board appraisal is conducted annually which includes an assessment of future requirements in relation to Board composition based on the above criteria and overall Board performance. The appraisal process for the Board is set out in greater detail later in this section.

Once it has been determined by the Board that a new director is to be appointed, a search is undertaken for suitable candidates, usually using the services of external consultants. Nominations are subsequently received and reviewed by the Board.

### 1.4 Meetings of the Board

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

Prior to each meeting of directors, the non-executive directors meet in the absence of executive directors and any other management representatives. Senior management are invited to attend meetings where matters relevant to their respective business unit are to be considered.

The number of meetings of directors held over the course of the year and details of directors' attendance at those meetings are provided in the Directors' Report.

### 1.5 Director independence

As noted in 1.3 above, the Board must comprise a majority of non-executive directors who are independent. In line with the Recommendations, the Board will consider a director to be independent if he or she is not a member of management and is free of any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

When assessing whether a director has any relationships that could affect the director's independence, the Board considers a number of factors which are consistent with the Recommendations. The Board takes a qualitative approach to materiality and assesses independence on a case-by-case basis by reference to each director's particular circumstances rather than applying strict quantitative thresholds.

The following factors and relationships are considered by the Board in assessing whether a director is independent:

- being a substantial shareholder of the Company or a company that has a substantial shareholding in the Company or being an officer of or being otherwise associated with, either directly or indirectly, a substantial shareholder
- being employed in an executive capacity by the Group within the last three years
- being a principal of a material professional adviser or a material consultant to the Group, within the last three years
- being, or being associated with, a material supplier or customer of the Group

## Part 1. Board of Directors (continued)

### 1.5 Director independence (continued)

- being in a material contractual relationship with the Suncorp Group other than as a director of the Company; and
- having any other interest or relationship that could materially interfere with the director's ability to act in the best interests of the Company and independently of management.

As at the date of this Statement, the Board considers all of the current non-executive directors to be independent. In reaching this view, the following matters were taken into consideration:

**Mr Story** was, until 30 June 2006, a partner of Corrs Chambers Westgarth Lawyers, which provided legal services to the Suncorp Group throughout the year. Mr Story remained as the non-executive Chairman of the board of directors of that firm until his resignation on 21 June 2007.

**Mr Ricketts** is a director of Spotless Group Limited, the parent entity of a company that provided catering services to the Group over the course of the year. The contractual arrangements between the Company and Spotless Services Australia Limited were in place prior to the date Mr Ricketts joined the Suncorp Board.

Mr Ricketts also acted as a consultant for Russell McVeagh, Solicitors (NZ), which provided legal services to the Suncorp Group throughout the year.

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

Accordingly, the Board has determined that, with respect to the above circumstances, none of the services provided were or are deemed material.

### 1.6 Conflicts of interest

Determinations regarding independence do not change a director's obligations in managing any conflict of interest that may arise between their duties as a director of the Company and their other interests and duties.

To ensure that any actual or potential conflict of interest is appropriately managed, the following procedures have been adopted by the Board:

- directors are required to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company; and
- where the Board believes a conflict exists, the director concerned is not to take part in any decision associated with the matter, including, as appropriate, not receiving the relevant Board papers, not being present at the meeting when the item is considered and not being informed of the decision taken.

### 1.7 Induction and education

The Company has an informal induction process for new directors which includes meeting with the Group CEO, members of the Senior Leadership Team and other senior managers about the nature of the business, current issues and the corporate strategy.

These meetings are held soon after a director's appointment to the Board.

Ongoing education for directors is provided through regular management presentations on certain key functions or business activities from across the Group. The external auditors and industry experts also address the Board from time to time on matters relevant to Suncorp's business or its operating environment.

Most of the topics presented to the Board are determined in advance and form part of the annual meeting schedule.

Also, to ensure directors remain equally informed on all material matters impacting on the Group's businesses, copies of the agendas for Board committee meetings are provided to all directors, and non-executive directors may attend meetings of any committee of which they are not a member, or they can choose to receive copies of particular papers or reports listed for discussion at those meetings.

### 1.8 Access to information and independent advice

Directors have unrestricted access to Company records and receive regular financial and operational reports from senior management for consideration at meetings of directors. Also, each director has entered into a deed with the Company that provides for access to documents, in certain circumstances, following their retirement as a director.

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

### 1.9 Board appraisal

A performance appraisal of the Board is conducted annually. An independent consultant is engaged to facilitate the process, usually every second year, and the Chairman of the Board conducts the appraisal every other year.

However, the same methodology and processes (as summarised below) are followed for both internal and external reviews.

The appraisal includes completion of a questionnaire by, and/or interviews with each director, the main objectives being to:

- assess the effectiveness of the Board as a whole in meeting the requirements of its charter
- assess the performance and contributions of individual directors, including the Chairman, in assisting the Board to fulfil its role; and
- identify aspects of Board or director performance that require improvement.

The questionnaire results (if applicable) and a summary of the views expressed during the interviews in relation to each of the above matters, or any other matters that directors believe are relevant, are provided to directors in a report prepared by the consultants or the Chairman. The Board as a whole discusses the report and any recommendations for change or improvement are agreed.

Progress against each of the recommendations is assessed in subsequent Board reviews. In the years when the questionnaire is completed by the independent consultant, the results are also benchmarked against other companies.

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

A review, facilitated by the Chairman, was conducted in accordance with the above process for the 2009/10 financial year.

### 1.10 Board committee appraisals

The performance of the Audit, Risk and Remuneration committees are subject to an annual assessment of their effectiveness in meeting the requirements of their charters. The assessment is based on the results of a questionnaire completed by each committee. The results are collated and a report submitted to the Board for consideration. On the basis of that assessment, committee membership and structure is confirmed or amended.

Assessments of the Audit, Risk and Remuneration committees were conducted in accordance with the above process for the 2009/10 financial year. The performance of the Nomination Committee is reviewed as part of the Board appraisal, on the basis that all non-executive directors are members of the Nomination Committee.

## Part 2. Board committees and New Zealand subsidiaries

### 2.1 Board committees

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

The committees form an important part of the Group's overall governance structure and therefore non-executive directors may attend meetings of any committee of which they are not a member or they can choose to receive copies of particular papers or reports listed for discussion at those meetings. Each committee has its own charter, which is approved by the Board and which defines the relevant committee's roles and responsibilities. Copies of the charters are available on the Company's website under 'Corporate Governance'.

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

### 2.2 New Zealand subsidiaries

The Group's major operating entities in New Zealand include Vero Insurance New Zealand Limited (Vero NZ), Asteron Life Limited, Tyndall Investment Management Limited and The New Zealand Guardian Trust Company Limited (NZGT).

Governance oversight of these companies is provided through the respective board of directors, which in the case of Vero NZ and NZGT, comprise independent non-executive directors, including Mr Geoff Ricketts, a director of Suncorp-Metway Ltd. Mr Ricketts is Chairman of the Board of each of the above companies other than NZGT.

## Part 2. Board committees and New Zealand subsidiaries (continued)

### Board Committees

| Committee | Members and composition | Role |
|---|---|---|
| **Audit** | The members of the Audit Committee are:<br>– Mr Bartlett (Chairman until 31 August 2010)<br>– Ms Dwyer (Chairman from 1 September 2010)<br>– Mr Grimshaw (appointed 16 April 2010)<br>Mr Story is an ex-officio member of the Audit Committee.<br>Mr Tutt retired on 28 October 2009; Mr Kriewaldt retired on 16 April 2010.<br>At the date of this Statement, the qualifications of the members of the committee satisfy the requirements of the ASX guidelines. Details of those qualifications are provided in the Directors' Report.<br>At all times throughout the reporting period, the members of the Audit Committee were all non-executive directors.<br>However, the Group CEO, Group CFO, and the internal and external auditor are invited to meetings at the Audit Committee's discretion.<br>The Audit Committee also holds discussions with the auditors in the absence of management on a regular basis. | The primary role of the Audit Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to oversight of the Group's financial and operational control environment.<br>Specific issues addressed by the Audit Committee throughout the year, in accordance with its charter, included:<br>– reviewing statutory reports and returns for lodgement with APRA<br>– reviewing half-year and annual financial statements and reports prior to consideration by the Board<br>– reviewing and assessing reports from management, the Appointed Actuary (general insurance), the Appointed Actuary (life insurance), the Reviewing Actuary and the external auditor in relation to matters impacting on the half-year and annual financial statements<br>– audit planning – reviewing and approving audit plans as submitted by both internal and external auditors and agreeing areas of audit emphasis and audit approach<br>– reviewing the provision of non-audit services by the external auditor to assess whether there is any potential impact on the auditor's independence; and<br>– reviewing internal and external audit reports and where weaknesses in controls or procedures have been identified, assessing whether remedial action taken by management is adequate and appropriate. |
| **Risk** | The members of the Risk Committee are:<br>– Dr Blackburne (Chairman until 31 August 2010)<br>– Mr Grimshaw (appointed 27 January 2010)<br>– Mr Kulk (Chairman from 1 September 2010)<br>– Dr Switkowski<br>Mr Story is an ex-officio member of the Risk Committee.<br>Dr Hirst retired on 16 April 2010. | The role of the Risk Committee is to provide the Board with oversight across the Group for all categories of risk, through the identification, assessment and management of risk and monitoring adherence to internal risk management policies and procedures.<br>Specific issues addressed and activities undertaken by the Risk Committee throughout the year, in accordance with its charter, included:<br>– review and approve the Group's Risk Management Framework<br>– review and confirm the Group's Risk Appetite<br>– review Line of Business Risk Reports and assess performance against Risk Appetite<br>– review and approve stress test scenarios<br>– oversight of the risk appetite, business planning and capital management development process<br>– review and approve Group Policy Framework and Policy suite; and<br>– review and approve risk management strategies and reinsurance management strategies as required by APRA. |
| **Remuneration** | The members of the Remuneration Committee are:<br>– Dr Switkowski (Chairman)<br>– Mr Bartlett (appointed 16 April 2010)<br>– Mr Kulk (appointed 28 October 2009)<br>Mr Story is an ex-officio member of the Remuneration Committee.<br>Dr Hirst retired on 16 April 2010;<br>Mr Tutt retired on 28 October 2009. | The Remuneration Committee is responsible for making recommendations to the Board on:<br>– the individual remuneration arrangements of the Group CEO and executives and person(s) or category of persons that may be specified by APRA<br>– the size of the annual bonus/incentive pools<br>– the remuneration of non-executive directors; and<br>– the remuneration structure of the categories of persons covered by the Company's remuneration policy.<br>During the year, the Remuneration Committee conducted a review of the Group's remuneration framework, processes and policies, to identify and monitor implementation of any changes that may be required to comply with new prudential requirements on remuneration, issued by APRA on 30 November 2009, and which became effective 1 April 2010. |
| **Nomination** | The Nomination Committee comprises all the non-executive directors. Mr Story is the Chairman of the Nomination Committee. | The Nomination Committee is responsible for:<br>– reviewing Board composition<br>– recommending the appointment of directors<br>– approving appointments to Board committees<br>– planning Board succession; and<br>– approving the Board performance evaluation process. |

## Part 3. Senior executives

### 3.1 Functions delegated to management

The Board has delegated the following functions to management:

- development of corporate strategies and business plans in consultation with directors and implementing the corporate strategies approved by the Board
- making recommendations to the Board on significant strategic and business initiatives
- making recommendations to the Board or relevant Board committee on appointments to senior management roles
- development and maintenance of succession plans for senior management roles
- development of an annual budget for consideration by the Board and then to conduct the Group's business activities within the approved budget limits
- development and maintenance of risk management systems and frameworks as approved by the Board or relevant Board committee; and
- managing the business in accordance with regulatory and legislative requirements and within the Group's approved policy and procedures framework.

### 3.2 Senior executive performance assessment

A system of **balanced scorecards** is used to establish performance measures and to monitor the performance of senior executives (including the Group CEO, Group Executives and their direct reports) against those measures.

The performance measures contained in the scorecards are a mixture of financial and non-financial indicators and risk related measures, that align with the Group and Business Unit business plans approved by the Board and reflect the individual executive's overall accountabilities and responsibilities.

The Suncorp performance management system also requires leaders to balance the scorecard result with the manner in which the results were obtained, as the overall performance of each senior executive is assessed having regard to the corporate values and the general manner in which the senior executive is seen to be supporting the desired corporate culture.

At the end of the financial year, the Group CEO conducts an assessment of the performance of each executive, relative to the balanced scorecard measures and peer group performance, in the context of industry and market conditions. Those assessments are submitted to the Remuneration Committee for review prior to submission to the Board as part of the remuneration review process.

The Group CEO's performance is subject to assessment by the Board at the end of the financial year. The Chairman then communicates the review outcomes as agreed by the Board to the Group CEO.

The senior executive performance assessments for year ended 30 June 2010 were conducted in accordance with the arrangements described above.

### 3.3 Senior executive induction and education processes

When a new employee is appointed to a senior executive role within the Group, they receive information and training on the Group's key policies, practices and procedures as well as information relevant to the role they will be performing and the management and business structure within which they will be operating.

Of course persons appointed to senior executive roles, whether they are new or existing employees, are expected to have the qualifications and industry experience necessary to perform properly the particular duties and responsibilities of their role and to maintain those qualifications and expertise while they remain in that role. This is also a requirement under the APRA prudential standards which apply to all of the Group's major operating entities.

Under the APRA *Fit and Proper Prudential Standard*, the Group must maintain a Fitness and Propriety Policy, designed to assist in managing risks associated with the appointment of persons to roles that have a significant impact on the sound and prudent management of the Group.

Under the Group's Fitness and Propriety Policy, all senior executives and directors are subject to a formal assessment process at the time of appointment and on an annual basis thereafter, to confirm they possess and have maintained the necessary skills, knowledge and expertise to undertake and fulfil the particular duties and responsibilities of the position they hold within the APRA-regulated entity.

The Group supports senior executives and other employees in maintaining and enhancing their industry and business knowledge and expertise and associated professional qualifications.

## Part 4. Risk management

Risk within the Group is defined as any threat to the achievement of the Group's objectives.

The Group has a structured risk management framework in place in respect of all key risks and that framework was enhanced during the year through:

- the permanent appointments to the positions of Group Chief Risk Officer, General Insurance Chief Risk Officer and Group Chief Investment Officer
- the continued evolution of elements of the Risk Management Framework, including the setting of risk appetite and stress testing; and
- policy alignment at the Group level.

Key areas of focus which have been identified for the year ahead include:

- enhancement of the Group's risk adjusted capital model, resulting in improved decision-making aligned to the Group's risk appetite
- a strategic, forward looking portfolio view of the Group's risk profile; and
- further embedding an effective risk culture to support key decisions and transparency of risk issues.

### 4.1 Enterprise Risk Management Framework

The Group has adopted a Risk Management Framework, incorporating the risk governance frameworks, policies, processes and practices which govern the monitoring, management, control and reporting of risks inherent within the business operations. The Risk Management Framework is approved by the Risk Committee, and reviewed and updated on an annual basis.

#### *4.1.1 Regulators*

The Group is a diversified financial services conglomerate, operating within the banking, general insurance and wealth management sectors and is therefore subject to APRA's prudential regulation framework. Accordingly, prudential requirements such as maintaining Board approved Risk Management Strategies and Reinsurance Management Strategies form part of the Risk Management Framework. Also, many of the Group's legal entities hold an Australian Financial Services Licence regulated by the Australian Securities & Investments Commission as part of the authorisation required for the provision of financial service products.

#### *4.1.2 Risk appetite*

Risk appetite represents the nature and level of risk that the Board is willing to accept in the pursuit of strategic objectives.

Critically linked to capital management, risk appetite is set at both the Group and Line of Business levels, with risk articulated in the form of:

- quantitative measures: such as appetite and tolerance for volatility in capital and earnings, which are measures that relate directly to business plans, risk limits and stress test scenarios
- qualitative considerations: which underpin the way risk is managed across the Group; and
- zero tolerance: areas where the Board has no appetite for risk.

When approving Group risk appetite, the Board considers:

- the competing requirements and constraints imposed by key stakeholders and the current risk profile of the Group
- the strategic direction of the Group and the future capital needs based on these strategies; and
- the potential impact of significant and plausible stress scenarios to the Group's overall financial position.

Each Line of Business has an articulated risk appetite statement relevant to their business, but which is aligned with the parameters set at the Group level. In conjunction with capital plans and business plans, Line of Business Risk Appetite Statements and the Group Risk Appetite Statement are reviewed and evaluated by the Group CFO, Group CRO and Risk Committee and approved by the Board.

### *4.1.3 Risk categorisation and policy setting*

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, as depicted in the table below.

**Credit risk**

The risk that a borrower or counterparty will not meet its obligations in accordance with agreed terms. Credit risk arises in Banking through lending and trading counterparties. In General Insurance and Life, 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.

*Bank Credit Risk Policy* | *Reinsurance Credit Policy (General Insurance)* | *Investment Mandates (General Insurance & Life)*

**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 exposures to interest rates and foreign exchange rates in trading and non-trading activities in Banking. Market risk in General Insurance and Life 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.

*Traded Market Risk Policy (Bank)* | *Investment Mandates (General Insurance & Life)*

**Balance sheet risk**

The risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term. Balance sheet risk arises at a Group level from the structure and characteristics of assets and liabilities and in the mismatch of their repricing dates.

*Non-Traded Market Risk Policy (Bank)* | *Investment Mandates (General Insurance & Life)*

**Liquidity risk**

The risk that the Group will be unable to service its cash flow obligations today or in the future. In Banking, liquidity risk arises from mismatches in the cash flows of financial transactions or the inability of financial markets to absorb the transactions of the Bank. In General Insurance and Life, liquidity risk arises from the requirement to make claim payments in a timely manner.

*Bank Liquidity Policy* | *Investment Mandates (General Insurance & Life)*

**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 in General Insurance and Life due to risks relating to the uncertainty of cash flows from insurance contracts.

*Insurance Risk Policy (General Insurance)* | *Reinsurance Policies (General Insurance)* | *Investment Mandates (General Insurance & Life)*

**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.

*Operational Risk Policy* | *Business Continuity Policy* | *Financial Crimes Policy*
*Procurement Policy* | *Outsourcing & Offshoring Policy* | *Dealing with Related Entities Policy*
*Project & Portfolio Management Policy* | *Product Approval Policy* | *Human Resource Policies*
*Expenditure Delegations of Authority Policy* | *Health & Safety Policies*

**Compliance risk**

The risk of legal or regulatory sanctions, financial loss or reputational damage the Group may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and good practice standards.

*Compliance Policy* | *ASIC & APRA Breach Reporting Policy* | *Fit & Proper Policy*
*Privacy Policy* | *Conflicts of Interest Policy* | *Whistleblower Policy*

**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 Group's business strategy and tactical initiatives that are articulated in business plans.

*Strategic Investments Assessments Policy* | *Strategic risk assessments within Business Plans* | *Risk Appetite Statements*

## Part 4. Risk management (continued)

#### *4.1.4 Risk Committee structures*

Within the Enterprise Risk Management Framework, an accountabilities model clearly establishes roles and responsibilities for managing risk. The Management Risk Committees are an important part of the accountabilities model with a number of committees in place. These committees comprise executive representation from both Group and Line of Business as appropriate. A subset of these committees operate with Board Risk Committee approved charters, delegations and limits. Current key management committees include:

- Bank Credit Risk Committee
- Bank Asset & Liability Committee
- Bank Operational Risk Committee
- Life Asset & Liability Committee
- Life Operational Risk Committee
- General Insurance Asset & Liability Committee
- General Insurance Risk Committee
- General Insurance Reinsurance Committee
- Crisis Management Committee

### 4.2 Internal control framework

As part of the Risk Management Framework, internal controls have been implemented across the Group to ensure appropriate risk identification, assessment, control, management, monitoring and reporting. This section outlines some of the key elements of those internal controls.

#### *4.2.1 Compliance*

The Group Compliance Policy mandates the Group will conduct its business in compliance with all laws, rules, regulations, standards and codes, internal policies and procedures. To ensure this occurs, senior management completes a monthly automated due diligence questionnaire to report the Group's regulatory and operational compliance status, including both actual and potential breaches. All matters identified within the due diligence report are retained on each subsequent monthly report until the matter is resolved to the satisfaction of management, a Board committee, or the Board itself, depending on the circumstances.

Policies and procedures have been developed to also ensure open communications occur between the Group and its primary regulators in a timely manner, namely:

- that all material correspondence between the Group and regulators is referred to the Board or relevant Board committee; and
- that the Group notify ASIC and APRA of any reportable breaches.

#### *4.2.2 Risk Committee reporting*

The Risk Committee engages in a quarterly conversation with management to assess current and emerging risks, identified through the Line of Business and Group risk reporting process. Each Line of Business also reports to the Risk Committee on the performance of its business against target dimensions, as contained in risk appetite statements, and updated stress testing scenario results are provided to the Risk Committee on a six-monthly basis. Matters are referred to the Board by the Risk Committee from time to time for consideration and approval in accordance with delegated authorities and regulatory requirements.

#### *4.2.3 Financial reporting*

The Board receives reports on a monthly basis from management on the financial performance of each business unit and the Group, including details of all key financial and business results reported against budget, with regular updates on yearly forecasts.

When the Board considers the statutory financial statements and reports for the Group in February and August each year, written certifications regarding the integrity of those financial statements and the Group's risk management and internal compliance and control systems are provided by the Group CEO, Group CFO and Group CRO.

For the financial year ended 30 June 2010, the Group CEO, Group CFO and Group CRO have provided:

- a declaration regarding the integrity of the financial statements of the Group; and
- assurance that the Group's risk management and internal compliance and control systems are operating effectively in all material respects.

These certifications meet the requirements of s 295A of the *Corporations Act 2001*.

The certifications provided by the Group CEO, Group CFO and Group CRO are based on responses provided by senior executives and management representatives to a management certification questionnaire, which is designed to provide an assurance to directors on matters that may impact the financial statements of Group companies.

#### *4.2.4 APRA declarations*

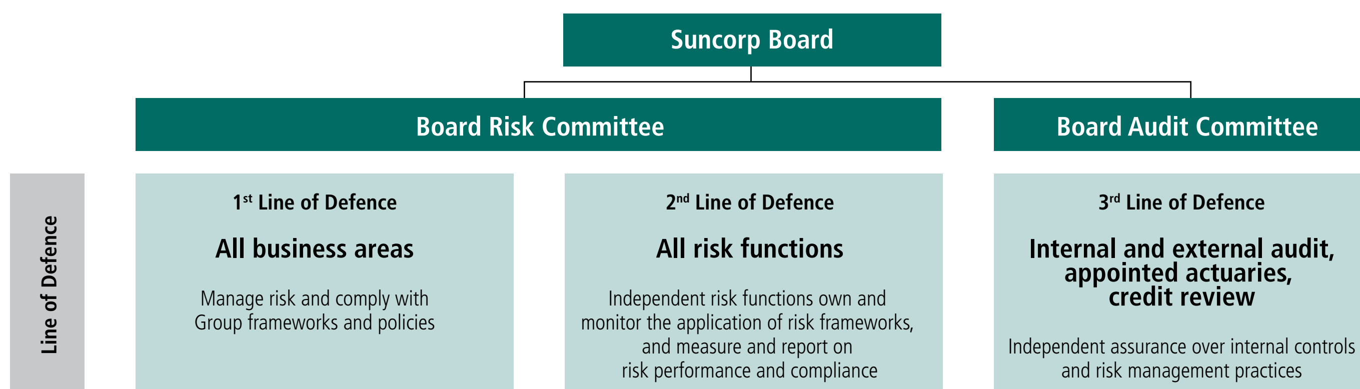
In accordance with APRA regulations, each regulated entity is required to submit to APRA on an annual basis a Risk Management Declaration, confirming the adequacy of the regulated entity's risk management systems.

The Risk Management Declarations, approved by the Board, are based on reports considered and reviews conducted by the Risk Committee during the course of the year and on the representations provided to the Board by management in regard to the adequacy of the Group's risk management systems for each category of risk.

## 4.3 Risk Management Accountabilities

### *4.3.1 Three Lines of Defence*

Accountabilities for risk management within the Group are based upon the Three Lines of Defence model.




### *4.3.2 Specific accountabilities*

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

The **Senior Leadership Team**, consisting of the Group CEO and all Group Executives, provides executive oversight and direction-setting across the Group's internal control environment and the Group's Risk Management Framework.

The **Group Chief Risk Officer (Group CRO)** provides the 'voice of risk' within the Senior Leadership Team. 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 each Business Unit 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 Risk Committee. **Chief Risk Officers**, with formal lines of accountability to both their Line of Business CEO and the Group CRO, have been appointed for the Bank, General Insurance and Life Insurance Businesses, in order to create greater ownership, understanding and awareness of risk.

**Internal Audit** provides independent testing and verification of the efficacy of corporate standards and business unit compliance, validates the overall risk framework and provides assurance that the risk management process is functioning as designed. Internal Audit provides reports to both the Audit Committee and Risk Committee and under the Internal Audit Charter adopted by the Audit Committee, members of the internal audit department have full, free and unrestricted access to all Group activities, records, property and personnel. The internal audit function is independent of the external auditor.

## 4.4 External audit

### *External auditor engagement*

The Audit Committee is responsible for recommending to the Board the appointment and removal of the external auditor and for determining the terms of engagement. The Group's external audit engagements were last put to tender in April 2002 and the Audit, Business Risk & Compliance Committee (as the Audit Committee was called at the time) was responsible for the oversight and administration of the tender process including:

- determining the tender/selection process to be followed and identifying key issues to be addressed
- selecting the firms invited to tender
- making presentations to the tendering firms
- receiving and assessing presentations from the tendering firms; and
- making a recommendation to the Board.

At the date of this report, the Group's auditor is KPMG. KPMG have a partner rotation policy that requires the signing and engagement partner to change every five years in accordance with the requirements of the *Corporations Act 2001*. The Board has endorsed that rotation policy.

### *External auditor independence*

The external auditor provides a written report to each Audit Committee meeting, on audit and non-audit services provided to the Group over the period since the last report to the committee and the fees charged for those services.

These reports also confirm that the auditor has maintained independence in relation to the Group having regard to relevant policies, professional rules and statutory requirements.

## Part 4. Risk management (continued)

***Attendance at Annual General Meetings***

The Group's external auditor is required to attend the Company's Annual General Meetings (AGMs) and shareholders are made aware at each AGM that the auditor is available to address questions relevant to the conduct of the audit and the preparation and content of the auditor's report.

## Part 5. Policies

### Governance policies of general application throughout the Group

***5.1 Remuneration***

The remuneration policies and structures in place for employees, management and directors over the reporting period, including full details of directors' and executives' benefits and interests, are explained in the Remuneration Report (part of the Directors' Report).

***5.2 Dealings in Company securities***

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

- the release of the Company's half-year and annual results to the ASX
- the AGM; and
- any major announcements.

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

- all directors (including the executive directors) must advise the Chairman of the Board
- the Chairman must advise the Chairman of the Audit Committee; and
- senior managers must advise the Group CEO.

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

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

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

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

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

***5.3 Code of conduct***

A code of conduct has been adopted by the Group and is available on the Company's website under 'Corporate Governance'.

The *Suncorp Code of Conduct* outlines the standards of behaviour that are expected of all directors, executives, management and employees and describes the values that underpin the way we conduct our business.

In addition to the *Suncorp Code of Conduct*, the Group's main business activities are also subject to a number of industry codes such as the *Banking Code of Conduct* and the *General Insurance Code of Practice*.

There are also a number of internal policies in place as part of a compliance framework to monitor and encourage adherence with the *Suncorp Code of Conduct* and industry codes. The key related policies are:

- Conflicts of Interest Policy
- Whistleblower Policy; and
- Share Dealing Policy.

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

***5.4 Continuous disclosure and shareholder communication***

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

The EGM Group Corporate Affairs & Investor Relations has primary responsibility for all communications with the ASX and all Company announcements are available via the Company's website following release to the ASX. A copy of the Company's disclosure policy is available on the Company's website under 'Corporate Governance'.

**Shareholder communication** – Suncorp is committed to:

- keeping its shareholders and the investment market fully informed on all matters that are relevant or material to its financial performance; and
- avoiding the disclosure of material information to anyone on a selective basis.

Information is disseminated primarily through timely announcements to the ASX. Those announcements are published on our website immediately following release by the ASX, enabling access to the broader investment community.

Direct communication with shareholders regarding the Group's performance also occurs on a regular basis through the distribution of annual reports (on request) in September each year and also through letters from the Chairman and Group CEO following the release of the full year and half-year results in August and February respectively, and following the AGM.

Shareholders can elect to receive all such communications through the post or in electronic format and can also lodge direct votes and proxy votes online through the website of the Company's share registrars, Link Market Services Limited. Details are in the AGM documents issued to shareholders.

The AGM, which is usually held in October each year and is webcast live, allows shareholders to address the Board and management directly on matters regarding the Group's performance.

Full details of the Suncorp Disclosure Policy and the Shareholder Communications Strategy, which govern how we communicate with our shareholders, are available on the Company's website (www.suncorpgroup.com.au).

# Statements of financial position

as at 30 June 2010

| | Note | Consolidated 2010 $m | Consolidated 2009 $m | Company 2010 $m | Company 2009 $m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 12 | **883** | 2,356 | **329** | 1,367 |
| Receivables due from other banks | 12 | **232** | 118 | **232** | 118 |
| Trading securities | 13 | **8,233** | 6,694 | **8,233** | 6,694 |
| Derivatives | 42 | **833** | 552 | **785** | 421 |
| Investment securities | 14 | **21,091** | 20,330 | **13,769** | 14,560 |
| Loans, advances and other receivables | 15 | **53,724** | 56,753 | **50,150** | 52,962 |
| Reinsurance and other recoveries | 17 | **1,878** | 1,622 | **–** | – |
| Deferred insurance assets | 18 | **748** | 799 | **–** | – |
| Investments in associates and joint ventures | 19 | **62** | 201 | **–** | – |
| Due from subsidiaries | | **–** | – | **1,883** | 2,866 |
| Property, plant and equipment | 20 | **358** | 407 | **37** | 39 |
| Deferred tax assets | 10 | **101** | 260 | **230** | 329 |
| Investment property | 21 | **144** | 160 | **–** | – |
| Other assets | 22 | **425** | 375 | **309** | 275 |
| Goodwill and intangible assets | 23 | **6,627** | 6,836 | **–** | – |
| **Total assets** | | **95,339** | 97,463 | **75,957** | 79,631 |
| **Liabilities** | | | | | |
| Deposits and short-term borrowings | 24 | **34,098** | 37,866 | **34,203** | 37,847 |
| Derivatives | 42 | **2,461** | 1,556 | **2,278** | 1,467 |
| Payables due to other banks | 12 | **28** | 29 | **28** | 29 |
| Payables and other liabilities | 25 | **1,874** | 2,345 | **814** | 1,258 |
| Current tax liabilities | 10 | **1** | 154 | **–** | 154 |
| Employee benefit obligations | 26 | **280** | 251 | **–** | – |
| Due to subsidiaries | | **–** | – | **5,585** | 7,195 |
| Unearned premium liabilities | 27 | **3,672** | 3,528 | **–** | – |
| Outstanding claims liabilities | 28 | **8,028** | 7,506 | **–** | – |
| Gross policy liabilities | 29 | **5,583** | 5,547 | **–** | – |
| Unvested policyowner benefits | 29 | **404** | 397 | **–** | – |
| Managed funds units on issue | 30 | **437** | 506 | **–** | – |
| Securitisation liabilities | 31 | **4,710** | 5,711 | **–** | – |
| Debt issues | 32 | **16,759** | 15,661 | **17,053** | 16,010 |
| **Total liabilities excluding loan capital** | | **78,335** | 81,057 | **59,961** | 63,960 |
| **Loan capital** | | | | | |
| Subordinated notes | 33 | **2,182** | 2,312 | **1,492** | 1,583 |
| Preference shares | 34 | **869** | 865 | **869** | 865 |
| **Total loan capital** | | **3,051** | 3,177 | **2,361** | 2,448 |
| **Total liabilities** | | **81,386** | 84,234 | **62,322** | 66,408 |
| **Net assets** | | **13,953** | 13,229 | **13,635** | 13,223 |
| **Equity** | | | | | |
| Share capital | | **12,618** | 12,425 | **12,728** | 12,529 |
| Reserves | | **74** | (123) | **117** | (58) |
| Retained profits | | **1,241** | 921 | **790** | 752 |
| **Total equity attributable to owners of the Company** | | **13,933** | 13,223 | **13,635** | 13,223 |
| Non-controlling interests | | **20** | 6 | **–** | – |
| **Total equity** | | **13,953** | 13,229 | **13,635** | 13,223 |

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

The statements of financial position are to be read in conjunction with the accompanying notes.

# Income statements

for the year ended 30 June 2010

| | Note | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Revenue** | | | | | |
| Banking interest revenue | 6 | **4,022** | 4,676 | **3,997** | 4,736 |
| Banking interest expense | 6 | **(3,090)** | (3,506) | **(2,681)** | (3,038) |
| | | **932** | 1,170 | **1,316** | 1,698 |
| Banking fee and commission revenue | 6, 38(a) | **234** | 266 | **224** | 254 |
| Banking fee and commission expense | 6, 38(a) | **(79)** | (98) | **(79)** | (99) |
| | | **155** | 168 | **145** | 155 |
| General insurance premium revenue | 6, 39(a) | **6,889** | 6,548 | **–** | – |
| Life insurance premium revenue | 6, 40(a) | **756** | 719 | **–** | – |
| Reinsurance and other recoveries revenue | 6 | **1,506** | 1,187 | **–** | – |
| General insurance investment revenue | | | | | |
| – insurance funds | 6 | **588** | 668 | **–** | – |
| – shareholder funds | 6 | **200** | 133 | **–** | – |
| Life insurance investment revenue (loss) | 6 | **764** | (698) | **–** | – |
| Gain on sale of subsidiaries and investments in joint ventures | 5, 6 | **215** | 6 | **64** | – |
| Other revenue | 6 | **479** | 659 | **930** | 1,299 |
| | | **12,484** | 10,560 | **2,455** | 3,152 |
| **Expenses** | | | | | |
| Operating expenses | 7 | **(3,231)** | (3,386) | **(1,448)** | (1,639) |
| General insurance claims expense | 39(a) | **(5,966)** | (5,638) | **–** | – |
| Life insurance claims expense | 40(a) | **(477)** | (437) | **–** | – |
| Outwards reinsurance premium expense | 39(a), 40(a) | **(766)** | (749) | **–** | – |
| (Increase) decrease in net policy liabilities | 40(a) | **(365)** | 867 | **–** | – |
| (Increase) in unvested policyowner benefits | 40(a) | **(6)** | (83) | **–** | – |
| Outside beneficial interests in managed funds | | **(46)** | 74 | **–** | – |
| Non-banking interest expense | | **(59)** | (88) | **(33)** | (47) |
| | | **(10,916)** | (9,440) | **(1,481)** | (1,686) |
| Share of profits (losses) of associates and joint ventures | 19 | **29** | (3) | **–** | – |
| Profit before impairment losses on loans and advances and tax | | **1,597** | 1,117 | **974** | 1,466 |
| Impairment losses on loans and advances | 9 | **(479)** | (710) | **(463)** | (688) |
| **Profit before tax** | | **1,118** | 407 | **511** | 778 |
| Income tax (expense) benefit | 10(a) | **(329)** | (54) | **1** | 65 |
| **Profit for the financial year** | | **789** | 353 | **512** | 843 |
| **Attributable to:** | | | | | |
| Owners of the Company | | **780** | 348 | **512** | 843 |
| Non-controlling interests | | **9** | 5 | **–** | – |
| **Profit for the financial year** | | **789** | 353 | **512** | 843 |

| | Note | **Cents** | Cents |
|---|---|---|---|
| **Earnings per share:** | | | |
| Basic earnings per share | 11 | **61.81** | 31.62 |
| Diluted earnings per share | 11 | **60.10** | 31.11 |

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

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

# Statements of comprehensive income

for the year ended 30 June 2010

| | Note | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Profit for the financial year** | | **789** | 353 | **512** | 843 |
| **Other comprehensive income recognised in reserves** | | | | | |
| Hedging reserve | | | | | |
| – Amount recognised in equity | | **191** | (488) | **174** | (497) |
| – Amount removed from equity and recognised in the income statement | | **13** | (44) | **13** | (44) |
| – Income tax (expense) benefit | 10(a) | **(56)** | 158 | **(52)** | 158 |
| Available-for-sale financial assets | | | | | |
| – Change in fair value recognised in equity | | **23** | 12 | **23** | 12 |
| – Change in fair value transferred from equity to the income statement | | **(10)** | (14) | **(10)** | (13) |
| – Income tax (expense) benefit | 10(a) | **(4)** | (1) | **(4)** | (1) |
| Exchange differences on translation of foreign operations | | | | | |
| – Exchange gains | | **9** | 10 | **–** | – |
| | | **166** | (367) | **144** | (385) |
| **Other comprehensive income recognised in retained profits** | | | | | |
| Defined benefit funds | | | | | |
| – Actuarial gains (losses) on defined benefit plans | 26(a) | **5** | (24) | **–** | – |
| – Income tax (expense) benefit | 10(a) | **–** | 6 | **–** | – |
| Other movements | | **6** | – | **–** | – |
| | | **11** | (18) | **–** | – |
| **Total comprehensive income for the financial year** | | **966** | (32) | **656** | 458 |
| Total comprehensive income for the year attributable to: | | | | | |
| Owners of the Company | | **957** | (38) | **656** | 458 |
| Non-controlling interests | | **9** | 6 | **–** | – |
| **Total comprehensive income for the financial year** | | **966** | (32) | **656** | 458 |

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

The statements of comprehensive income are to be read in conjunction with the accompanying notes.

# Statements of changes in equity

for the year ended 30 June 2010

| | Note | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Share capital** | | | | | |
| *Issued capital* | | | | | |
| Balance at the beginning of the financial year | | **12,480** | 10,855 | **12,480** | 10,855 |
| Shares issued | | **195** | 1,640 | **195** | 1,640 |
| Transaction costs | | **–** | (15) | **–** | (15) |
| Balance at the end of the financial year | | **12,675** | 12,480 | **12,675** | 12,480 |
| *Share-based payments* | | | | | |
| Balance at the beginning of the financial year | | **51** | 28 | **49** | 27 |
| Share-based remuneration | | **2** | 23 | **4** | 22 |
| Balance at the end of the financial year | | **53** | 51 | **53** | 49 |
| *Treasury shares* | | | | | |
| Balance at the beginning of the financial year | | **(106)** | (84) | **–** | – |
| Treasury shares movements | | **(4)** | (22) | **–** | – |
| Balance at the end of the financial year | | **(110)** | (106) | **–** | – |
| **Total share capital** | | **12,618** | 12,425 | **12,728** | 12,529 |
| **Reserves** | | | | | |
| *General reserve for credit losses* | | | | | |
| Balance at the beginning of the financial year | | **195** | 159 | **195** | 159 |
| Transfer from retained profits | | **31** | 36 | **31** | 36 |
| Balance at the end of the financial year | | **226** | 195 | **226** | 195 |
| *Hedging reserve* | | | | | |
| Balance at the beginning of the financial year | | **(254)** | 120 | **(259)** | 124 |
| Amount recognised in equity | | **191** | (488) | **174** | (497) |
| Amount removed from equity and recognised in the income statement | | **13** | (44) | **13** | (44) |
| Income tax (expense) benefit | 10(a) | **(56)** | 158 | **(52)** | 158 |
| Balance at the end of the financial year | | **(106)** | (254) | **(124)** | (259) |
| *Assets available-for-sale reserve* | | | | | |
| Balance at the beginning of the financial year | | **6** | 9 | **6** | 8 |
| Change in fair value recognised in equity | | **23** | 12 | **23** | 12 |
| Change in fair value transferred from equity to the income statement | | **(10)** | (14) | **(10)** | (13) |
| Income tax expense | 10(a) | **(4)** | (1) | **(4)** | (1) |
| Balance at the end of the financial year | | **15** | 6 | **15** | 6 |
| *Foreign currency translation reserve* | | | | | |
| Balance at the beginning of the financial year | | **(70)** | (79) | **–** | – |
| Exchange differences on translation of foreign operations | | **9** | 9 | **–** | – |
| Balance at the end of the financial year | | **(61)** | (70) | **–** | – |
| **Total reserves** | | **74** | (123) | **117** | (58) |
| **Retained profits** | | | | | |
| Balance at the beginning of the financial year | | **921** | 1,352 | **752** | 674 |
| Profit after tax attributable to owners of the Company | | **780** | 348 | **512** | 843 |
| Actuarial gains (losses) on defined benefit plans | 26(a) | **5** | (24) | **–** | – |
| Income tax (expense) benefit on actuarial gains (losses) on defined benefit plans | 10(a) | **–** | 6 | **–** | – |
| Transfer to general reserve for credit losses | | **(31)** | (36) | **(31)** | (36) |
| Other movements | | **6** | – | **–** | – |
| Dividends to owners of the Company | | **(440)** | (725) | **(443)** | (729) |
| **Balance at the end of the financial year** | | **1,241** | 921 | **790** | 752 |
| **Non-controlling interests** | | | | | |
| Balance at the beginning of the financial year | | **6** | 6 | **–** | – |
| Profit after tax attributable to non-controlling interests | | **9** | 5 | **–** | – |
| Dividends to non-controlling interests | | **(2)** | (6) | **–** | – |
| Non-controlling interests movements | | **7** | – | **–** | – |
| Currency translation differences | | **–** | 1 | **–** | – |
| **Balance at the end of the financial year** | | **20** | 6 | **–** | – |

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

The statements of changes in equity are to be read in conjunction with the accompanying notes.

# Statements of cash flows

for the year ended 30 June 2010

| | Note | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Cash flows from operating activities** | | | | | |
| Interest received | | **4,759** | 5,449 | **3,974** | 4,724 |
| Premiums received | | **8,388** | 7,864 | **–** | – |
| Reinsurance and other recoveries received | | **1,387** | 1,052 | **–** | – |
| Dividends received | | **52** | 316 | **543** | 957 |
| Other operating revenue received | | **997** | 935 | **559** | 655 |
| Interest paid | | **(3,143)** | (3,640) | **(2,708)** | (3,106) |
| Claims paid | | **(6,518)** | (6,237) | **–** | – |
| Outwards reinsurance premiums paid | | **(824)** | (802) | **–** | – |
| Operating expenses paid | | **(3,739)** | (4,125) | **(1,673)** | (2,217) |
| Income tax paid – operating activities | | **(150)** | (65) | **(148)** | (24) |
| | | **1,209** | 747 | **547** | 989 |
| *Net (increase) decrease in operating assets* | | | | | |
| Trading securities | | **(1,550)** | (1,019) | **(1,550)** | (1,068) |
| Loans, advances and other receivables | | **2,684** | 789 | **2,360** | 514 |
| *Net (decrease) increase in operating liabilities* | | | | | |
| Deposits and short-term borrowings | | **(3,774)** | (5,260) | **(4,277)** | (5,688) |
| **Net cash from operating activities** | 47 | **(1,431)** | (4,743) | **(2,920)** | (5,253) |
| **Cash flows from investing activities** | | | | | |
| Proceeds from disposal of plant and equipment and intangible software | | **7** | 5 | **–** | – |
| Proceeds from sale of investment property | | **4** | 3 | **–** | – |
| Proceeds from sale of investment securities | | **25,584** | 31,292 | **843** | 12 |
| Proceeds from assets classified as held for sale | | **–** | 94 | **–** | – |
| Proceeds from sale of associates and joint ventures | | **331** | 104 | **–** | – |
| Proceeds from sale of investment in subsidiary, net of cash disposed | 5(a) | **143** | 2 | **62** | – |
| Payments for plant and equipment and intangibles | | **(131)** | (149) | **(2)** | (9) |
| Payments for purchase of investment securities | | **(26,064)** | (33,400) | **–** | (2,678) |
| Payment for investment in subsidiary | | **–** | – | **–** | (813) |
| Payments for investment property capitalised expenditure | | **–** | (4) | **–** | – |
| Payments for purchase of investments in associates and joint ventures | | **(44)** | (14) | **–** | – |
| Payments for purchase of development properties | | **–** | (31) | **–** | – |
| Income taxes paid – investing activities | | **(231)** | (74) | **–** | – |
| **Net cash from investing activities** | | **(401)** | (2,172) | **903** | (3,488) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of shares | | **–** | 1,379 | **–** | 1,379 |
| Net increase in debt issues and securitisation liabilities | | **1,134** | 7,267 | **1,663** | 8,867 |
| Payment of transaction costs | | **(5)** | (26) | **–** | (26) |
| Payments for treasury shares | | **(16)** | (24) | **–** | – |
| Payment on maturity of subordinated notes | | **(326)** | – | **(321)** | – |
| Dividends paid on ordinary shares | | **(245)** | (453) | **(248)** | (457) |
| **Net cash from financing activities** | | **542** | 8,143 | **1,094** | 9,763 |
| **Net (decrease) increase in cash and cash equivalents** | | **(1,290)** | 1,228 | **(923)** | 1,022 |
| Cash and cash equivalents at the beginning of the financial year | | **2,445** | 1,221 | **1,456** | 434 |
| Cash balances disposed during the financial year | | **(68)** | (3) | **–** | – |
| Effect of exchange rate fluctuations on cash held | | **–** | (1) | **–** | – |
| **Cash and cash equivalents at end of the financial year** | 12 | **1,087** | 2,445 | **533** | 1,456 |

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

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

# Notes to the consolidated financial statements

for the year ended 30 June 2010

## 1. Reporting entity

Suncorp-Metway Ltd (the Company) is a company domiciled in Australia. The address of the Company's registered office is Level 18, 36 Wickham Terrace, Brisbane Qld 4000. The consolidated financial statements of the Company as at and for the financial year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and jointly controlled entities.

## 2. Basis of preparation

### 2(a) Statement of compliance

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

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB continues to work on a project to issue a standard that does include such criteria. Until the issuance of that standard, the financial reports of insurers in different countries may not be comparable in terms of the recognition and measurement of insurance contracts.

The financial statements were approved for issue by the directors on 25 August 2010.

### 2(b) Basis of measurement

The consolidated 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 for trading, financial instruments held to back General Insurance liabilities and Life Insurance policy liabilities, financial instruments classified as available-for-sale, investment property, certain short-term offshore borrowings and life investment contract liabilities. Measurement of defined benefit superannuation scheme surplus (deficit) is as described in note 3(q)(ii).

### 2(c) Liquidity format

The statements of financial position are prepared using a liquidity format in which the assets and liabilities are presented 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.

### 2(d) Functional and presentation currency

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

### 2(e) Rounding

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

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

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

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

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

- Impairment of goodwill (refer note 23)
- Impairment of other intangible assets (refer note 23)
- Banking specific and collective provisions for impairment (refer note 38(d))
- General Insurance outstanding claims liabilities, assets arising from reinsurance contracts and other recoveries, and assets arising from insurance managed funds (refer note 39(g))
- Life Insurance gross policy liabilities, assets arising from reinsurance contracts, and investment contracts – deferred acquisition costs and deferred revenue (refer note 40(h))
- Valuation of investment property (refer note 21)
- Employee benefit obligations (refer note 26)
- Contingent assets and liabilities (refer note 45)
- Valuation of financial instruments (refer notes 41 and 42)

Judgements made by management in the application of Australian Accounting Standards that have significant effect on these financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes 38(d), 39(g) and 40(h) for each major line of business.

## 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 consolidated financial statements, and have been applied consistently by Group entities.

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

The Group adopted a number of 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 Group from the adoption of these standards and interpretations.

The Group applies revised AASB 101 *Presentation of Financial Statements (2007)*, which became effective on 1 January 2009. As a result, the Group presents income statements displaying components of profit or loss; statements of comprehensive income displaying all non-owner changes in equity; and statements of changes in equity displaying all owner changes in equity. Comparative information has been re-presented so that it is also in conformity with the revised standard. There is no impact on earnings per share as a result of this change in presentation.

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 Group in this financial report:

– 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 Australian Interpretation 8 *Scope of AASB 2* and Australian Interpretation 11 *AASB 2 – Group and Treasury Share Transactions* will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

– Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* clarify the accounting treatment when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The amendments, which become mandatory for the Group's 30 June 2011 financial statements and are required to be applied retrospectively, are not expected to have a significant impact on the financial statements as the Group has not entered into any debt for equity swaps.

– Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* clarifies and simplifies the definition of a related party. The revised AASB 124 becomes mandatory for the Group's 30 June 2012 financial statements and is not expected to have a significant impact on the financial statements.

– AASB 2009-14 *Prepayments of a Minimum Funding Requirement* permits recognition of an asset for a prepayment of contributions made to cover minimum funding requirements of the defined benefit superannuation fund. This standard becomes mandatory for the Group's 30 June 2012 financial statements. The Group has not yet determined the potential effect of the new standard.

– AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* address the classification and measurement of financial assets. It requires all financial assets be measured at either amortised cost or fair value. The existing AASB 139 categories of available-for-sale and held-to-maturity financial assets will no longer be available. This standard becomes mandatory for the Group's 30 June 2014 financial statements. The Group has not yet determined the potential effect of the new standard.

– AASB 1053 *Application of Tiers of Australian Accounting Standards (June 2010)* establishes a differential financial reporting framework, which consists of two tiers of reporting requirements for reporting entities preparing general purpose financial statements. Both tiers require application of Australian Accounting Standards and Interpretations with full IFRS recognition and measurement requirements. Tier 1 applies full disclosure requirements and Tier 2 applies reduced disclosure requirements in accordance with AASB 2010-02 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*. For-profit entities in the private sector that have public accountability are required to apply Tier 1 requirements. Other entities may apply either Tier 1 or Tier 2 requirements. These new standards become mandatory for the Group's 30 June 2014 financial statements and because the Group is considered to have public accountability and will be required to apply full disclosure requirements, there is not expected to be any impact on adoption.

The Group elected to early adopt AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (amendments to AASB 8). This amendment removes the requirement for the Group to disclose total assets in the segment reporting if this measure is not regularly provided to the Chief Operating Decision Maker. This does not have any impact on the measurement or recognition of amounts disclosed in the Group's financial report.

## 3(a) Principles of consolidation

### *(i) Subsidiaries*

Consolidation is the aggregation of the financial reports of all entities within a group comprising the parent entity and its subsidiaries and the elimination of intra group transactions and balances. Subsidiaries are entities including companies, managed funds or trusts controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial report incorporates the assets, liabilities and profit and loss of all subsidiaries. The Company and its subsidiaries together are referred to as the Group. Profit or loss of subsidiaries is included in the income statement for the period that the Company controls the entity.

Investments in subsidiaries are initially measured at cost. They are subsequently increased by any capital contributions including equity-settled share-based payments issued to employees of subsidiaries and decreased by any impairment losses.

In relation to the Group's Life Insurance business, which is conducted by Suncorp Life & Superannuation Limited, Asteron Life Limited (the Life Companies) and Asteron Life Limited (New Zealand), assets, liabilities, revenues and expenses are recognised in the consolidated financial report irrespective of whether they relate to policyowners or the shareholder. A policyowner is one who holds a policy with the Life Companies. The shareholder represents the Life Companies' interest in the Statutory Funds. The shareholder's entitlement to monies held in the Statutory Funds is subject to the distribution and transfer restrictions and other requirements of the *Life Insurance Act 1995* (Life Act).

A Statutory Fund is a fund of a life company that relates solely to the life insurance business of that life company as defined by the Life Act.

### *(ii) Managed funds units on issue*

When the Group has controlling interests in managed funds, the total amount of each underlying asset and liability of the controlled entities is recognised in the statement of financial position. When a controlled unit trust, in which the units have been classified as debt in accordance with AASB 132 *Financial Instruments: Presentation*, is consolidated the share of the unitholder liability attributable to the Group is eliminated but amounts due to external unitholders remain as liabilities in the statement of financial position. Managed funds units on issue represents that liability to external unitholders in funds which have been consolidated by the Group.

### *(iii) Non-controlling interests*

Non-controlling interests occur when the Group does not hold 100% of the shares or units in a subsidiary where such shares or units are recognised as equity in the subsidiary. Non-controlling interests are also recognised as equity. Related items of income and expense are recognised in the income statement at their gross amounts, with the offsetting amount attributable to non-controlling interests disclosed separately in the income statement.

### *(iv) Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding of between 20 and 50% of the voting rights. Investments in associates are accounted for in the parent entity's financial report using the cost method.

The income statement includes the Group's share of the profit or loss of associates on an equity-accounted basis whilst the Group maintains significant influence. Applying the equity-accounted basis, the Group's interest in the entity is initially recorded at cost and is adjusted thereafter for changes in the Group's share of the net assets of the entity.

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

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

### *(v) Joint venture entities*

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

Interests in joint venture entities are accounted for in the parent entity financial reports using the cost method.

Interests in joint venture entities are accounted for in the consolidated financial report using the equity method. The income statement includes the Group's share of the profit or loss of the jointly controlled entity, whilst joint control is maintained.

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

### *(vi) Jointly controlled assets*

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

### *(vii) Joint venture operations*

Joint venture operations are brought to account by the Group by recognising in the financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

## 3. Significant accounting policies (continued)

### 3(a) Principles of consolidation (continued)

***(viii) Securitisation***

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

*Group*

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

The Trusts fund their purchase of the loans by issuing floating-rate pass-through debt securities. These are represented as securitisation liabilities of the Group; however, the Group does not stand behind the capital value or the performance of the securities or the assets of the Trusts. The Group does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the Trusts. The Group is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support.

*Suncorp-Metway Ltd*

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

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

### 3(b) Business combinations

The Group has adopted revised AASB 3 *Business Combinations (2008)* and amended AASB 127 *Consolidated and Separate Financial Statements (2008)* for business combinations occurring in the financial year beginning 1 July 2009. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

*Business combinations prior to 1 July 2009*

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

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed by the Group at the date of exchange, plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

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

*Business combinations since 1 July 2009*

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

The cost of an acquisition is measured as the fair value of the assets transferred, liabilities incurred, and equity instruments issued by the Group at the acquisition date. Acquisition related costs are expensed in the period in which they are incurred. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The subsidiary's identifiable assets acquired, liabilities assumed, contingent liabilities, and any non-controlling interest in the acquiree are measured at their fair values at the acquisition date. If the amount of the consideration transferred and amount of any non-controlling interest in the acquiree is more than the fair value of the net amounts of the identifiable assets acquired and liabilities assumed, the excess is recorded as goodwill. If the net identifiable assets acquired are greater than the consideration transferred and non-controlling interests, the difference is recognised directly in the income statement, after a reassessment of the identification and measurement of the net assets acquired.

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

*Acquisition of entities under common control*

In a business combination arising from transfers of interests in entities that are under the control of the ultimate parent entity, the assets and liabilities are acquired at the carrying amounts recognised previously in the Group's controlling consolidated financial statements.

## 3(c) Foreign currency

### *(i) Foreign currency transactions*

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

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

Where a foreign currency transaction is part of a hedge relationship, it is accounted for as above, subject to the hedge accounting rules set out in the 'Derivative financial instruments' and 'Hedge accounting' policies (refer notes 3(d) and (e) respectively).

### *(ii) Financial reports of foreign operations*

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

## 3(d) Derivative financial instruments

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

Derivative financial instruments are initially recognised at trade date at fair value excluding transaction costs. 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. All derivatives that do not qualify as an effective hedging derivative are treated as a traded derivative. Changes in the fair values of traded derivatives are immediately recognised in the income statement.

Where derivatives qualify for hedge accounting, the treatment of the gain or loss will depend on the type of hedge relationship as set out in the 'Hedge accounting' policy (refer note 3(e)).

*Embedded derivatives*

Where a derivative is embedded in another financial instrument, the economic characteristics and risks of the derivative are not closely related to those of the host contract and the host contract is not carried at fair value, the embedded derivative is separated from the host contract and carried at fair value through profit and loss. Otherwise, the embedded derivative is accounted for on the same basis as the host contract.

## 3(e) Hedge accounting

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

On entering into a hedging relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

### *(i) Cash flow hedges*

A cash flow hedge is a hedge of the exposure to variability of cash flows that:

- is attributable to a particular risk associated with a recognised asset or liability (such as future interest payments on variable rate debt) or a highly probable forecast transaction; and
- could affect profit or loss.

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

Amounts accumulated within the equity reserve are released to the income statement in the same periods during which the hedged item affects the income statement.

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

## 3. Significant accounting policies (continued)

### 3(e) Hedge accounting (continued)

***(ii) Fair value hedges***

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

- a recognised asset or liability
- an unrecognised firm commitment; or
- an identified portion of such an asset, liability or firm commitment

that is attributable to a particular risk and could affect profit and loss.

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

When a hedge relationship no longer meets the criteria for hedge accounting, the hedged item is accounted for under the effective interest method from that point and any accumulated adjustment to the carrying value of the hedged item from when it was effective is amortised to the income statement over the period to when the hedged item will mature.

### 3(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at branches, cash on deposit, balances with the Reserve Bank of Australia, highly liquid short-term investments and money at short call. They are measured at face value or 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.

### 3(g) Receivables due from other banks

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

### 3(h) Assets classified as held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale. For an asset to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter they are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

### 3(i) Financial assets

A financial asset is recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. At initial recognition, the asset is measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset except for financial assets that are designated as at fair value through profit or loss which would exclude transaction costs where they are recognised in the income statement.

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

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

Financial assets are classified into one of the following categories upon initial recognition:

- financial assets at fair value through profit and loss
- loans and receivables
- held-to-maturity; and
- available-for-sale.

At each reporting date measurement depends upon the chosen classification.

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

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

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

The assets are measured at fair value each reporting date based on the current bid price where available. Where a quoted price is not available one of the following valuation techniques are used to value the assets at 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 income statement.

***(ii) Loans and receivables***

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

Interest income is recorded in the income statement.

#### *(iii) Held-to-maturity*

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

#### *(iv) Available-for-sale*

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

Available-for-sale investments are measured at each reporting date at fair value. Fair value gains and losses other than foreign exchange gains and losses on debt securities are recognised directly into equity until impaired or derecognised, whereupon the cumulative gains and losses previously recognised in equity are reclassified to the income statement as a reclassification adjustment. Foreign exchange gains and losses on debt securities, interest income and dividend income are recognised in the income statement.

### Banking activities

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

Trading securities are government, bank and other debt securities that are acquired principally for the purpose of selling or repurchasing in the near term or are part of a portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives that are not specifically designated as being part of an effective hedge relationship are classified as trading securities.

Interest income on trading securities is recorded in net interest income and the fair value movement on trading securities is recorded in net profits on derivative and other financial instruments.

#### *(ii) Loans and receivables*

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

Loans are recognised when cash is advanced to the customers.

#### *(iii) Available-for-sale*

Available-for-sale investments are equity or debt securities that are not intended to be sold or repurchased in the near term.

### General Insurance activities

The assets of the General Insurance business are assessed under AASB 1023 *General Insurance Contracts* to be assets that are held to back general insurance liabilities (referred to as insurance funds) and assets that represent shareholder funds.

#### *(i) Financial assets backing general insurance liabilities*

The Group has designated financial assets held in portfolios that match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. Financial assets which back general insurance liabilities are designated as fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy. These financial assets include investment securities and receivables from policyowners, intermediaries and reinsurers, and investment settlement receivables.

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

#### *(ii) Financial assets not backing general insurance liabilities*

Financial assets that do not back general insurance liabilities include investment securities and loans and receivables.

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

Loans and receivables related to investment securities and the insurance managed funds business are measured at each reporting date at amortised cost using the effective interest method.

### Life Insurance activities

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.

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

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

- investment securities comprising holdings in unlisted managed investment schemes, futures and forward foreign exchange contracts; and
- receivables comprising premium debtors, reinsurance and other recoveries, investment settlement 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 and time value of money as appropriate. Given the short-term nature of most receivables, the recoverable amount approximates fair value.

## 3. Significant accounting policies (continued)

### 3(i) Financial assets (continued)

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

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

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

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

**Funds management activities**

Financial assets related to managed funds activities are designated as fair value through profit or loss.

### 3(j) Investment property

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

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

### 3(k) Lease receivables and other lease transactions

A distinction is made between finance leases (which effectively transfer substantially all the risks and benefits incidental to ownership of leased non-current assets from the lessor to the lessee) and operating leases under which the lessor effectively retains substantially all such risks and benefits.

***(i) Finance leases***

Finance leases, including leveraged leases, in which entities within the Group are the lessor, are recognised in the statement of financial position as loans, advances and other receivables. They are recorded on the commencement of the lease at the net investment in the lease, being the present value of the minimum lease payments receivable and any unguaranteed residual value, plus any initial direct costs.

The revenue attributable to finance leases is brought to account in the income statement based on a constant periodic rate of return on the Group's net investment in the finance lease.

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

***(ii) Operating leases***

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased property.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

***(iii) Surplus leased premises***

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

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

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

### 3(l) Property, plant and equipment

***(i) Recognition and initial measurement***

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

Property, plant and equipment is initially measured at cost, being the purchase price plus incidental costs directly attributable to the acquisition.

***(ii) Subsequent measurement***

Subsequent additional costs are only capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Group in future years.

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

***(iii) Depreciation***

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

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

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

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

| Category | Rate |
|---|---|
| Buildings (excluding integral plant) | 2.5% |
| Leasehold improvements | 10% to 20% |
| Motor vehicles | 15% |
| Technology hardware | 33.3%, or 20% in limited instances |
| Automatic teller machines | 20% |
| Desktop computer equipment | 25%, or up to 50% in limited instances |
| Other computer equipment | 20% to 33.3% |
| Other plant and office equipment | 10% to 20% |

***(iv) Retirement***

The carrying amount of property, plant and equipment is derecognised upon disposal or where no future economic benefits are expected from its use. The gain or loss arising from the derecognition is recognised in the income statement when the item is derecognised and calculated as the difference between the carrying amount of the asset at the time of derecognition and the net proceeds of derecognition.

## 3(m) Intangible assets

***(i) Initial recognition and measurement***

Intangible assets are stated at cost less any accumulated amortisation and any accumulated impairment losses. 'Cost' comprises all directly attributable costs necessary to purchase, create, produce, and prepare the asset to be capable of operating in the manner intended by management. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at the acquisition date.

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

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

***(ii) Subsequent expenditure***

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

***(iii) Amortisation***

Amortisation is charged to the income statement in a manner that reflects the pattern in which the asset's future economic benefits are expected to be consumed over the estimated useful lives of intangible assets unless such lives are indefinite. An intangible asset is regarded as having an indefinite useful life when, based on all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. Where the asset is deemed to have an indefinite life, it is not amortised but tested for impairment at least on an annual basis. Goodwill is an example of such an intangible asset.

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

The useful lives of the intangible assets held are outlined in note 23.

***(iv) Goodwill***

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of joint venture entities and associates is included in the carrying value of the investment.

*Business combinations prior to 1 July 2004*

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

*Business combinations since 1 July 2004*

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

## 3. Significant accounting policies (continued)

### 3(n) Deferred insurance assets

**General Insurance activities**

***(i) Deferred acquisition costs***

Acquisition costs are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

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

***(ii) Deferred reinsurance premiums***

Deferred reinsurance premiums are recognised as part of deferred insurance assets in the statement of financial position. The amortisation of deferred reinsurance premiums is in accordance with the pattern of reinsurance service received. The amount deferred represents the future economic benefit to be received from reinsurance contracts.

***(iii) Other deferred insurance assets***

Other deferred insurance assets are recognised as part of deferred insurance assets in the statement of financial position. The amortisation of other deferred insurance assets is in accordance with the earning pattern of the corresponding premium revenue, of the underlying insurance contract. The amount deferred represents the future economic benefit to be received from the insurance contacts.

**Life Insurance activities**

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

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

### 3(o) Impairment

***(i) Impairment of financial assets***

Financial assets not measured at fair value through profit and loss are assessed for objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and on or prior to each reporting date. Where the loss event or events has an impact on the estimated future cash flows of the financial asset and this can be reliably estimated, the carrying amount of the asset is written down to its estimated recoverable amount.

An impairment loss is recognised in respect of financial assets measured at amortised cost and is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Impairment losses are recognised in the income statement. When a subsequent event causes the amount of the impairment loss to decrease, a reversal of the impairment loss is recognised in the income statement.

An impairment loss is recognised in respect of available-for-sale financial assets where there is evidence of a decrease in fair value below cost. Cumulative losses are transferred from equity to the income statement. When subsequent events cause the amount of the impairment loss to decrease, a reversal of the impairment is recognised through the income statement for debt securities and in equity for equity securities.

***(ii) Impairment of Banking loans and receivables***

Loans and receivables carried at amortised cost using the effective interest method are subject to an impairment assessment to determine if there is objective evidence that any loan is impaired at each reporting date. Specific impairment provisions are recognised for all loans where there is objective evidence that an individual loan is impaired. Specific impairment provisions are based on the carrying amount of the loan and the present value of expected future cash flows. Where loans are not assessed as individually impaired, they are classified into groups of loans with similar credit risk characteristics and collectively assessed for impairment. Collective impairment provisions are based on historical loss experience adjusted, where appropriate, for current observable data.

The amount necessary to bring the impairment provisions to their assessed levels, after write-offs, is charged to the income statement. All known bad debts are written off in the period in which they are identified. Where not previously provided for, they are written off directly to the income statement. The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income.

### *(iii) Impairment of non-financial assets*

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

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

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) – this may be an individual asset or a group of assets. For the purpose of assessing impairment of goodwill, goodwill is allocated to cash-generating units representing the Group's investment in each of its business lines, which are its operating segments.

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.

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

Impairment losses, if any, recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss recognised for goodwill is not reversed. An impairment loss for an asset other than goodwill is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

## 3(p) Financial liabilities

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

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

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

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

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

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

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

Financial liabilities relating to General Insurance and Life Insurance business are designated as at fair value through profit or loss. Financial liabilities arising from life investment contracts are measured at fair value based on the future settlement amount under the contract.

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

Financial liabilities, other than financial liabilities at fair value through profit or loss and financial liabilities designated as part of effective fair value hedging relationships, are subsequently measured at amortised cost using the effective interest method. This includes bank acceptances, payables due to other financial institutions and deposits and other borrowings (except those designated as being part of a fair value hedge relationship for which the accounting treatment is described in the 'Derivative financial instruments' and 'Hedge accounting' policies).

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date (repurchase agreement), the financial assets sold under such agreements continue to be recognised in the statement of financial position and the obligation to repurchase is recognised as deposits and short-term borrowings.

### *(iii) Compound instruments*

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the instruments on their relative carrying amounts at the date of issue.

## 3. Significant accounting policies (continued)

### 3(q) Employee entitlements

#### *(i) Short-term employee benefits*

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

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

*Short-term bonus plans*
A liability is recognised for short-term bonus plans when there is a constructive obligation to pay this amount and the amount can be reliably estimated.

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

#### *(ii) Post-employment benefits (superannuation)*

The Group contributes to both defined contribution and defined benefit superannuation schemes. Contributions are charged to the income statement as the obligation to pay is incurred. Contributions outstanding at reporting date are treated as liabilities. The defined contribution plans receive fixed contributions from Group entities and the Group's legal or constructive obligation is limited to these contributions. The defined benefit plans all provide defined lump sum benefits based on years of service and final average salary with some funds also providing a pension option.

The asset and liability recognised in the statement of financial position in respect of defined benefit plans is the lower of:

- the present value of the defined benefit obligation at the balance date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs; and
- the total of cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

#### *(iii) Other long-term employee benefits*

*Long service leave*
A liability for long service leave is recognised in the statement of financial position. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using Commonwealth Government bond rates with terms to maturity that match, as closely as possible, the estimated future cash outflows. Related on-costs such as workers' compensation and payroll tax are also included in the liability.

#### *(iv) Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts a voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

#### *(v) Share-based payments*

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

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

*Future vesting compensation*
Shares granted under the Executive Performance Share Plan (EPSP) vest over a period from grant date to generally three to five years. The fair value of these long-term incentives is recognised as an expense in the income statement on a straight-line basis over the vesting period.

The value is determined as the fair value at grant date multiplied by the expected number of shares to be granted.

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

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

When the Company grants deferred shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investment in subsidiaries, with a corresponding increase in equity over the vesting period of the grant. These adjustments are eliminated on consolidation.

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

- if a non-market condition is not satisfied (for example, an unfulfilled service period) the expense is reversed in the income statement in the period when the condition was not satisfied; and
- if a market condition is not satisfied (for example Total Shareholder Return not being achieved) the expense is not reversed.

## 3(r) Outstanding claims liabilities

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

Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. Features and trends of claims experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected. Projected future payments include an allowance for inflation and superimposed inflation and are discounted to present values by applying risk-free discount rates. Also included is an allowance for future claims handling costs, reinsurance and third party recoveries and an additional risk margin to allow for the inherent uncertainty in the central estimate of the outstanding claims liability. The details of risk margins and the process for determining the risk margins are set out in note 39(h).

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

## 3(s) Policy liabilities

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

The life insurance policy liability valuation determines the capital and retained profits of the Statutory Funds and the shareholder funds. 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 income statement, including the proposed transfer to the shareholder fund in respect of participating business.

### *(i) Insurance contracts*

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

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (premiums, claims, expenses and profit margins to be released in future periods) are projected into the future. The liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets. Where the benefits are not linked to the performance of the backing assets, a risk-free discount rate is used. The risk-free discount rate is determined by the Appointed Actuary and is 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 companies' constitution. The participating policyowner profit sharing entitlement is treated as an expense in the income statement.

*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 (Australia) and the *Professional Standard Number 3* (New Zealand Society of Actuaries).

## 3. Significant accounting policies (continued)

### 3(s) Policy liabilities (continued)

#### *(i) Insurance contracts (continued)*

*Allocation of operating profit and unvested policyowner benefits (continued)*

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

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

#### *(ii) Investment contracts*

Life investment contracts consist of a financial instrument and a management services element. The financial instrument 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 income statement. 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 the 'Deferred acquisition costs' policy note 3(n).

#### *(iii) 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 that a shortfall exists, the shortfall is immediately recognised in the income statement.

### 3(t) Unvested policyowner benefits

Unvested policyowner benefits are policyowner retained profits as defined in the Life Act (Australia) and the *Professional Standard Number 3* (New Zealand Society of Actuaries). 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(u) Loan capital

Loan capital is debt issued by the Group with terms and conditions, such as being undated or subordinated, which qualify for inclusion as capital under APRA Prudential Standards but as a liability under accounting standards.

#### *(i) Subordinated notes*

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

The accounting treatment for subordinated notes designated as part of an effective hedging relationship is described in the 'Derivative financial instruments' and 'Hedge accounting' policies.

#### *(ii) Preference shares*

The reset preference shares are recognised as a liability as they are exchangeable on a specific date at the option of the holder. While the convertible preference shares have no specified maturity date, subject to certain conditions being met, conversion to the Company's ordinary shares will occur on the mandatory conversion date and hence these exhibit characteristics of a liability. The capital is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. Dividends are charged as interest expense to the income statement on an accruals basis.

### 3(v) Share capital

Ordinary shares are classified as equity.

#### *(i) Repurchase of share capital*

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

#### *(ii) Treasury shares*

Ordinary shares of the Company that are acquired by subsidiaries including share-based remuneration trusts and controlled unit trusts are referred to as treasury shares on a consolidated basis, and are deducted from consolidated equity at the amount of the consideration paid. No gain or loss on treasury shares is recognised in the income statement.

#### *(iii) Transaction costs*

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. Transaction costs in excess of the proceeds of the equity instruments issued, or where no proceeds are raised, are recognised as an expense.

### 3(w) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the statement of financial position (except as part of a business combination) 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.

## 3(x) Revenue

### (i) Dividends

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

#### Banking activities

### (i) Interest revenue and expense

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

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

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

### (ii) Non-interest revenue

Non-yield related application and activation lending fees received are recognised as income when the loan is disbursed or the commitment to lend expires.

Service fees that represent the recoupment of the costs of providing service, for example maintaining and administering existing facilities, are recognised on an accruals basis when the service is provided.

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

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

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

#### Insurance activities

### (i) General insurance premium revenue

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

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

At reporting date any proportion of premium revenue received and receivable but not earned in the income statement is recognised in the statement of financial position as an unearned premium liability. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods.

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

### (ii) Life insurance premium revenue

Premiums received are separated into their revenue and liability components. The premium recorded as revenue in the income statement relates to life insurance contracts. The components of premium that relate to life investment contracts are in the nature of deposits and are recognised as 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 recognised in the statement of financial position as premiums in advance within payables and other liabilities.

### (iii) Life insurance reinsurance and other recoveries revenue

Policy claims recoverable from reinsurers are recognised as revenue in line with the recognition of the claim expense (or upon notification of the insured event).

### (iv) General insurance reinsurance and other recoveries revenue

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported and claims incurred but not enough reported are recognised as revenue. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

## 3. Significant accounting policies (continued)

### 3(x) Revenue (continued)

***(v) Reinsurance commission revenue and expenses***

Reinsurance commission revenue and expenses are recognised in the income statement as they accrue.

***(vi) Investment revenue***

*Interest*

Interest income is recognised on an effective yield basis.

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

Changes in the fair value of financial and investment property assets are recognised as revenue in the income statement in the reporting period in which changes occur.

***(vii) Insurance managed funds income***

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

***(viii) Fees and other revenue***

Fees are charged to customers in connection with life 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 recognised in the statement of financial position within payables and other liabilities. 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 recognised as income as the service is provided.

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

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

### 3(y) Acquisition costs

Costs associated with obtaining and recording insurance business are referred to as acquisition costs.

**General Insurance activities**

Underwriting expenses include acquisition costs and other underwriting expenses.

Acquisition costs include commissions and other selling and underwriting costs incurred in obtaining general insurance premiums. These costs are recognised in the income statement as discussed in note 3(n)(i).

Other underwriting expenses are all expenses other than acquisition costs or claims expenses that are incurred in the course of ordinary activities of the General Insurance business. Other underwriting expenses are expensed as incurred.

**Life Insurance activities**

***(i) Life insurance contracts***

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

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

Acquisition losses are recognised at inception in the income statement.

***(ii) Life investment contracts***

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

### 3(z) Levies and charges

Levies and charges imposed on the General Insurance business by various authorities are expensed in the income statement on a basis consistent with the recognition of premium revenue. These include fire service levies, Medical Care and Injury Services Levy, NSW Insurance Protection Tax and workers' compensation levies. The portion of levies and charges payable at reporting date relating to unearned premium is recorded as a deferred acquisition cost. A liability is recognised for levies and charges payable at the reporting date.

### 3(aa) Claims expense

**General Insurance activities**

Claims expense represents payments for claims and the movement in outstanding claims liabilities. Claims represent the benefits paid or payable to the policyowner on the occurrence of an event giving rise to a loss or accident according to the terms of the policy. Claims expenses are recognised in the income statement as losses are incurred which is usually the point in time when the event giving rise to the claim occurs.

**Life Insurance activities**

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.

## 3(ab) Outwards reinsurance premium expense

### General Insurance activities

Premium ceded to reinsurers is recognised by the Group as outwards reinsurance premium expense in the income statement from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. A portion of outwards reinsurance premium is recognised as a deferred reinsurance asset and presented as deferred insurance assets on the statement of financial position at reporting date.

### Life Insurance activities

Where portions of the policy are reinsured, the ceded premiums are recognised in the income statement as reinsurance expense. Premiums ceded to reinsurers are recognised as expenses in accordance with the pattern of gross premium received, being for facultative, proportional and non-proportional reinsurance.

## 3(ac) 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.

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

Statistics such as policy counts, annual premiums, funds under management and claims payments are used to apportion the expenses to individual life insurance and life investment products.

## 3(ad) Income tax

Income tax expense comprises current and deferred tax and is recognised in the income statement except to the extent it relates to items recognised in equity, in which case it is recognised in equity.

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

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

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities, including derivative contracts, provision for employee entitlements, tax losses carried forward and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. The tax effect of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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

For presentation purposes, deferred tax assets and deferred tax liabilities have been offset where they relate to income taxes levied by the same taxation authority on the same taxable entity or entities within the Group.

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

*Tax consolidation*

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in note 46.

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

## 3. Significant accounting policies (continued)

### 3(ad) Income tax (continued)

*Tax consolidation (continued)*
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 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.

### 3(ae) Goods and services tax

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

Net earned premium is net of the GST component of premium.

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

### 3(af) Earnings per share

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

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

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

### 3(ag) Changes in accounting estimates and errors

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

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

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

For retrospective application, comparative information presented for a particular prior period need not be restated if restating the information is impracticable. 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.

## 4. Segment reporting

As of 1 July 2009, segment information is presented in respect of the Group's operating segments, which are identified based on separate financial information that is regularly reviewed by the Group's chief operating decision maker (CODM), being the Group Chief Executive Officer and his immediate executive team, in assessing performance and determining the allocation of resources. The operating segments are identified according to the nature of profit generated and services performed. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously, operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. As a result of the adoption of AASB 8 *Operating Segments*, Compulsory Third Party insurance has been included within the General Insurance – Commercial segment as reported to management. In prior years, this activity was included as part of the General Insurance – Personal segment. Comparatives have been restated.

Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on profit, earnings per share or net assets.

Inter-segment transfers are priced on an arm's length basis and are eliminated on consolidation.

The Group has early adopted AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (amendments to AASB 8) and has elected not to disclose segment asset information as such amounts are not regularly provided to the Group's CODM.

## 4(a) Operating segments

The Group comprises the following operating segments:

| Segment | Activities |
|---|---|
| General Insurance – Personal | Home and contents insurance, motor insurance, marine insurance, travel insurance, loan protection, rental bond and personal effects cover. |
| General Insurance – Commercial | Commercial motor insurance, commercial property insurance, marine insurance, industrial special risks insurance, public liability and professional indemnity insurance, workers' compensation insurance and compulsory third party insurance. |
| Vero New Zealand | Home and contents insurance, marine insurance, business insurance, rural insurance, construction and engineering insurance, travel insurance, public liability and professional indemnity, directors' and officers' liability. |
| Banking | Commercial banking, agribusiness, property and equipment finance, home, personal and small business loans, savings and transaction accounts and treasury. |
| Life | Life insurance, superannuation administration services, funds management, financial planning and funds administration in Australia and New Zealand. |

| | General Insurance | | Vero | | | Total |
|---|---|---|---|---|---|---|
| | Personal | Commercial | New Zealand | Banking | Life | segments |
| | $m | $m | $m | $m | $m | $m |
| **2010** | | | | | | |
| Revenue from outside the Group | **4,638** | **3,574** | **580** | **4,261** | **1,935** | **14,988** |
| Inter-segment revenue | **8** | **27** | **–** | **16** | **22** | **73** |
| **Total segment revenue** | **4,646** | **3,601** | **580** | **4,277** | **1,957** | **15,061** |
| Segment profit before income tax | **234** | **488** | **68** | **78** | **310** | **1,178** |
| Segment income tax expense | **(67)** | **(141)** | **(13)** | **(34)** | **(88)** | **(343)** |
| **Segment profit after income tax** | **167** | **347** | **55** | **44** | **222** | **835** |
| Interest revenue | **134** | **467** | **16** | **4,023** | **205** | **4,845** |
| Interest expense | **–** | **–** | **–** | **(3,095)** | **(6)** | **(3,101)** |
| Depreciation and amortisation expense | **(8)** | **(8)** | **(7)** | **(120)** | **(5)** | **(148)** |
| Impairment losses on loans and advances | **–** | **–** | **–** | **(479)** | **–** | **(479)** |

| | General Insurance | | Vero | | | Total |
|---|---|---|---|---|---|---|
| | Personal | Commercial | New Zealand | Banking | Life | segments |
| | $m | $m | $m | $m | $m | $m |
| **2009** | | | | | | |
| Revenue from outside the Group | 4,332 | 3,313 | 559 | 5,059 | 426 | 13,689 |
| Inter-segment revenue | 19 | 68 | – | 19 | 4 | 110 |
| **Total segment revenue** | 4,351 | 3,381 | 559 | 5,078 | 430 | 13,799 |
| Segment profit before income tax | 57 | 430 | 52 | 117 | 99 | 755 |
| Segment income tax expense | (19) | (120) | (1) | (48) | 18 | (170) |
| **Segment profit after income tax** | 38 | 310 | 51 | 69 | 117 | 585 |
| Interest revenue | 143 | 528 | 31 | 4,702 | 168 | 5,572 |
| Interest expense | – | – | – | (3,585) | (13) | (3,598) |
| Depreciation and amortisation expense | (9) | (9) | (6) | (118) | (3) | (145) |
| Impairment losses on loans and advances | – | – | – | (710) | – | (710) |

## 4. Segment reporting (continued)

### 4(b) Reconciliations of reportable segment revenues and profit after income tax

| | Consolidated | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Total segment revenue** | **15,061** | 13,799 |
| Contribution from Hooker Corporation Limited | **9** | 26 |
| Gain on sale of subsidiaries and investments in joint ventures | **215** | 6 |
| General insurance corporate costs and joint venture income | **445** | 502 |
| Consolidation eliminations | **(77)** | (169) |
| **Total revenue** | **15,653** | 14,164 |
| **Segment profit before income tax** | **1,178** | 755 |
| Contribution from Hooker Corporation Limited | **4** | 8 |
| Amortisation of Promina acquisition intangible assets | **(210)** | (245) |
| Integration costs | **(59)** | (147) |
| General insurance corporate costs and joint venture income | **(16)** | 28 |
| Gain on sale of subsidiaries and investments in joint ventures | **215** | 6 |
| Consolidation eliminations | **6** | 2 |
| **Profit before income tax** | **1,118** | 407 |

### 4(c) Geographical segments

Whilst some business activities take place in New Zealand, the Group operates predominantly in one geographical segment being Australia. Revenue from external customers in New Zealand are not material to the Group.

### 4(d) Major customers

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

## 5. Changes in the composition of the Group

### 5(a) Subsidiaries

#### Acquisitions

The Tyndall Cash Fund was set up in February 2010 and a number of subsidiaries have holdings in this fund. As at 30 June 2010, the Group has a 98% controlling interest in the fund.

Following the acquisition of an additional 25% interest in Standard Pacific (Qld) Pty Ltd on 24 July 2009, the Group now has a 75% controlling interest in this entity and it is consolidated. In prior financial years, the Group's investment in this entity was treated as an associate.

There were no other material acquisitions of subsidiaries during the current or prior financial year.

#### Disposals

On 30 November 2009, the Group sold its investment in the Tyndall Quality Income Fund. There was no profit or loss as a result of this sale. Details of the disposal are as follows:

| | $m |
|---|---|
| **Carrying value of assets and liabilities disposed** | |
| Cash and cash equivalents | **63** |
| Investment securities | **81** |
| **Total carrying value of assets and liabilities deconsolidated** | **144** |
| **Reconciliation of cash movement** | |
| Cash received | **144** |
| Less cash deconsolidated | **(63)** |
| **Net cash inflow** | **81** |

On 15 October 2009, the Group sold its investment in Hooker Corporation Limited and its subsidiaries, resulting in a profit before tax of $50 million. Details of the disposals are as follows:

| | $m |
|---|---|
| **Carrying value of assets and liabilities disposed** | |
| Cash and cash equivalents | **5** |
| Property, plant and equipment | **6** |
| Intangible assets | **8** |
| Other assets | **6** |
| Payables and other liabilities | **(10)** |
| **Total carrying value of assets and liabilities deconsolidated** | **15** |
| **Reconciliation of cash movement** | |
| Cash received | **67** |
| Less cash deconsolidated | **(5)** |
| **Net cash inflow** | **62** |

On 31 May 2009, the Group sold its investments in Secure Sentinel Pty Ltd and Secure Sentinel NZ Ltd, resulting in a profit before tax of $2 million. Details of the disposals are as follows:

| | $m |
|---|---|
| **Carrying value of assets and liabilities disposed** | |
| Cash and cash equivalents | 3 |
| Loans, advances and other receivables | 1 |
| Payables and other liabilities | (4) |
| **Total carrying value of assets and liabilities deconsolidated** | – |
| **Reconciliation of cash movement** | |
| Cash received | 5 |
| Less cash deconsolidated | (3) |
| **Net cash inflow** | 2 |

## 5(b) Associates and joint venture entities

### Acquisitions

The Group did not acquire any interests in joint ventures or associates in the current or prior financial year.

### Disposals

The Group sold its 50% shares in RACQ Insurance Limited and RAA Insurance Holdings Limited on 28 February 2010 for $280 million and $51 million respectively, resulting in a profit before tax of $165 million.

In October 2009 the Group received proceeds of $2 million for the sale of a 5% interest in RACT Insurance Pty Ltd, a joint venture entity. The Group now has a 65% share in the joint venture.

The Group sold its 50% share of RAC Insurance Pty Ltd to joint venture partner, The Royal Automobile Club of Western Australia Incorporated on 5 August 2008 for $104 million.

## 6. Income

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Interest: | | | | |
| subsidiaries | **–** | – | **22** | 37 |
| other | **4,821** | 5,422 | **3,975** | 4,699 |
| Dividends: | | | | |
| subsidiaries | **–** | – | **543** | 957 |
| other | **52** | 316 | **–** | – |
| Rental income | **16** | 22 | **–** | – |
| General insurance revenue: | | | | |
| direct premium | **6,889** | 6,514 | **–** | – |
| inwards reinsurance premium | **–** | 34 | **–** | – |
| reinsurance and other recoveries | **1,329** | 1,028 | **–** | – |
| reinsurance commission income | **44** | 54 | **–** | – |
| Life insurance revenue: | | | | |
| direct premium | **756** | 719 | **–** | – |
| reinsurance recoveries revenue | **177** | 159 | **–** | – |
| Changes in fair value of General Insurance financial assets | **151** | 222 | **–** | – |
| Changes in fair value of Life Insurance financial assets | **429** | (1,190) | **–** | – |
| Trust distributions | **103** | 22 | **–** | – |
| Net profits on derivative and other financial instruments:[1] | | | | |
| realised | **3** | 17 | **3** | 18 |
| unrealised | **17** | (29) | **17** | (29) |
| Net profits on financial liabilities at amortised cost | **2** | 145 | **–** | 89 |
| Fees and commissions: | | | | |
| subsidiaries | **–** | – | **261** | 205 |
| other | **240** | 267 | **224** | 254 |
| Fees from trust and fiduciary activities | **229** | 102 | **–** | – |
| Gain on sale of subsidiary and investment in joint ventures | **215** | 6 | **64** | – |
| Other revenue | **180** | 334 | **106** | 59 |
| | **15,653** | 14,164 | **5,215** | 6,289 |
| **Disclosed in the income statements as:** | | | | |
| Banking interest revenue | **4,022** | 4,676 | **3,997** | 4,736 |
| Banking fee and commission revenue | **234** | 266 | **224** | 254 |
| General insurance premium revenue | **6,889** | 6,548 | **–** | – |
| Life insurance premium revenue | **756** | 719 | **–** | – |
| Reinsurance and other recoveries revenue | **1,506** | 1,187 | **–** | – |
| General insurance investment revenue | **788** | 801 | **–** | – |
| Life insurance investment revenue (loss) | **764** | (698) | **–** | – |
| Gain on sale of subsidiaries and investments in joint ventures | **215** | 6 | **64** | – |
| Other revenue | **479** | 659 | **930** | 1,299 |
| | **15,653** | 14,164 | **5,215** | 6,289 |
| Banking interest expense | **(3,090)** | (3,506) | **(2,681)** | (3,038) |
| Banking fee and commission expense | **(79)** | (98) | **(79)** | (99) |
| | **12,484** | 10,560 | **2,455** | 3,152 |

1 Included within net profits on derivatives and other financial instruments are gains of $80 million (2009: $50 million) for the Group and $86 million (2009: $26 million) for the Company on derivatives held in qualifying fair value hedging relationships, and losses of $87 million (2009: $66 million) for the Group and $79 million (2009: $42 million) for the Company representing changes in the fair value of the hedged items attributable to the hedged risk.

## 7. Expenses

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Interest expense** | | | | |
| Subsidiaries | **–** | – | **5** | 16 |
| External | **3,096** | 3,619 | **2,709** | 3,069 |
| **Total interest expense** | **3,096** | 3,619 | **2,714** | 3,085 |
| **Operating expenses** | | | | |
| *Staff expenses* | **1,506** | 1,507 | **35** | 10 |
| **Total staff expenses** | **1,506** | 1,507 | **35** | 10 |
| *Equipment and occupancy expenses* | | | | |
| Depreciation: | | | | |
| buildings | **1** | 1 | **1** | 1 |
| plant and equipment | **75** | 73 | **–** | – |
| leasehold improvements | **28** | 27 | **–** | – |
| Total depreciation | **104** | 101 | **1** | 1 |
| Loss on disposal of property, plant and equipment | **2** | 3 | **–** | – |
| Operating lease rentals | **155** | 156 | **47** | 38 |
| Other | **46** | 39 | **18** | 10 |
| **Total equipment and occupancy expenses** | **307** | 299 | **66** | 49 |
| *Other expenses* | | | | |
| Hardware, software and data line expenses | **152** | 148 | **30** | 33 |
| Advertising and promotion expenses | **190** | 172 | **30** | 28 |
| Office supplies, postage and printing | **75** | 78 | **27** | 27 |
| Amortisation: | | | | |
| brand names | **25** | 24 | **–** | – |
| customer and distribution relationships | **108** | 129 | **–** | – |
| outstanding claims liability intangible | **23** | 27 | **–** | – |
| franchise agreements | **–** | 1 | **–** | – |
| software | **98** | 109 | **–** | – |
| Acquisition costs – insurance activities | **480** | 513 | **–** | – |
| Intra-group expenses | **–** | – | **1,185** | 1,428 |
| Financial expenses | **137** | 172 | **47** | 48 |
| Other | **130** | 207 | **28** | 16 |
| **Total other expenses** | **1,418** | 1,580 | **1,347** | 1,580 |
| **Total operating expenses** | **3,231** | 3,386 | **1,448** | 1,639 |

## 8. Auditors' remuneration

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $000** | 2009 $000 | **2010 $000** | 2009 $000 |
| **Audit services:** | | | | |
| **Auditor of the Company** | | | | |
| *KPMG Australia* | | | | |
| Audit and review of financial reports | **5,493** | 5,981 | **834** | 905 |
| Other regulatory audits | **1,837** | 1,679 | **318** | 303 |
| | **7,330** | 7,660 | **1,152** | 1,208 |
| **Overseas KPMG firms** | | | | |
| Audit and review of financial reports | **1,586** | 1,798 | **–** | – |
| Other regulatory audits | **59** | 31 | **–** | – |
| **Other auditors** | | | | |
| Audit and review of financial reports | **–** | 192 | **–** | – |
| | **8,975** | 9,681 | **1,152** | 1,208 |
| **Other services:** | | | | |
| **Auditor of the Company** | | | | |
| *KPMG Australia* | | | | |
| Taxation compliance engagements | **12** | 89 | **–** | 89 |
| Assurance engagements | **645** | 675 | **212** | 389 |
| Due diligence engagements | **–** | 1,220 | **–** | 1,220 |
| Other non-audit related services | **20** | – | **20** | – |
| | **677** | 1,984 | **232** | 1,698 |
| *KPMG related practices* | | | | |
| Other regulatory audit engagements | **438** | 434 | **–** | – |
| **Overseas KPMG firms** | | | | |
| Assurance engagements | **61** | 132 | **–** | – |
| **Other auditors** | | | | |
| Assurance engagements | **–** | 479 | **–** | 188 |
| Taxation engagements | **–** | 116 | **–** | 10 |
| | **1,176** | 3,145 | **232** | 1,896 |

## 9. Impairment losses on loans and advances

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Banking activities** | | | | |
| *Impairment losses on loans and advances* | | | | |
| (Decrease) increase in collective provision for impairment (note 16) | **(81)** | 202 | **(75)** | 195 |
| Increase in specific provision for impairment (note 16) | **99** | 453 | **95** | 451 |
| Bad debts written off | **464** | 57 | **446** | 44 |
| Bad debts recovered | **(3)** | (2) | **(3)** | (2) |
| | **479** | 710 | **463** | 688 |

# 10. Income tax

## 10(a) Income tax expense

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Recognised in the income statement** | | | | |
| **Current tax expense** | | | | |
| Current year | **239** | 299 | **(51)** | 143 |
| Adjustments for prior years | **(6)** | 12 | **8** | (17) |
| | **233** | 311 | **(43)** | 126 |
| **Deferred tax expense** | | | | |
| Origination and reversal of temporary differences | **96** | (257) | **42** | (191) |
| **Total income tax expense (benefit) in the income statement attributable to continuing operations** | **329** | 54 | **(1)** | (65) |
| **Numerical reconciliation between income tax expense (benefit) and profit before tax** | | | | |
| **Profit before tax** | **1,118** | 407 | **511** | 778 |
| Income tax using the domestic corporation tax rate of 30% (2009: 30%) | **335** | 122 | **153** | 233 |
| Increase in income tax expense due to: | | | | |
| Non-deductible expenses | **15** | 21 | **14** | 17 |
| Imputation gross up on dividends received | **12** | 4 | **–** | – |
| Statutory funds | **(1)** | (54) | **–** | – |
| Income tax offsets and credits | **(39)** | (12) | **–** | – |
| Intercompany dividend elimination | **–** | – | **(163)** | (287) |
| Amortisation of intangible assets on acquisition | **7** | 7 | **–** | – |
| Other | **13** | (34) | **(3)** | (20) |
| | **342** | 54 | **1** | (57) |
| (Over) provision in prior years | **(13)** | – | **(2)** | (8) |
| **Income tax expense (benefit) on profit before tax** | **329** | 54 | **(1)** | (65) |

### Income tax of the financial services business

***Australia***

Income tax expense includes an expense of $83 million (2009: benefit of $11 million) attributable to the Life Companies' statutory funds.

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

| | Applicable tax rate | |
|---|---|---|
| | **2010 %** | 2009 % |
| **Class of business** | | |
| Complying superannuation business[1] | **15** | 15 |
| Ordinary class of business | **30** | 30 |
| Shareholder funds | **30** | 30 |
| Annuity and pension business[2] | **–** | – |

1 includes Virtual Pooled Superannuation Trust (VPST)

2 includes Segregated Exempt Assets (SEA)

## 10. Income tax (continued)

### 10(a) Income tax expense (continued)

***New Zealand***

In New Zealand, a corporate tax rate of 30% (2009: 30%) applies for all classes of business.

The Government in New Zealand has announced a reduction in the company tax rate from 30% to 28% for income years after 1 October 2010. For the Group's New Zealand companies the effective date will be 1 July 2011. Deferred tax assets and liabilities at 30 June 2010 have been adjusted accordingly on an estimated realisation basis.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Deferred tax recognised directly in equity** | | | | |
| Relating to available-for-sale financial assets | **4** | 1 | **4** | 1 |
| Relating to actuarial losses on defined benefit funds | **–** | (6) | **–** | – |
| Relating to cash flow hedges | **56** | (158) | **52** | (158) |
| Relating to other | **1** | (22) | **1** | (22) |
| | **61** | (185) | **57** | (179) |

### 10(b) Current tax liabilities

The current tax receivable for the Company and the Group of $2 million (2009: $154 million liability) refers to the total current tax receivable in respect of current and prior financial periods for the Suncorp-Metway Ltd tax consolidated group.

The current tax liability of $1 million (2009: $6 million receivable) refers to the total current tax liability in respect of current and prior financial periods for New Zealand subsidiaries that are not part of the Suncorp-Metway Ltd tax consolidated group.

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

### 10(c) Deferred tax assets and liabilities

***Recognised deferred tax assets and liabilities***

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Consolidated** | | | | | | |
| Property, plant and equipment | **17** | 8 | **–** | (7) | **17** | 1 |
| Intangible assets | **–** | – | **(258)** | (294) | **(258)** | (294) |
| Investment property | **–** | – | **–** | (1) | **–** | (1) |
| Other investments | **12** | 150 | **–** | – | **12** | 150 |
| Deposits and short-term borrowings and debt issues | **–** | – | **–** | (27) | **–** | (27) |
| Employee benefits | **47** | 51 | **–** | – | **47** | 51 |
| Provisions | **312** | 338 | **(18)** | (14) | **294** | 324 |
| Other items | **59** | 96 | **(70)** | (40) | **(11)** | 56 |
| Tax assets (liabilities) | **447** | 643 | **(346)** | (383) | **101** | 260 |
| Set-off of tax | **(346)** | (383) | **346** | 383 | **–** | – |
| **Net tax assets** | **101** | 260 | **–** | – | **101** | 260 |
| **Movements** | | | | | | |
| Balance at the beginning of the financial year | **643** | 381 | **(383)** | (563) | | |
| (Charged) credited to the income statement | **(193)** | 246 | **97** | 11 | | |
| Credited (charged) to equity | **–** | 16 | **(61)** | 169 | | |
| Acquisition/disposal of subsidiaries | **(3)** | – | **1** | – | | |
| **Balance at the end of the financial year** | **447** | 643 | **(346)** | (383) | | |

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Company** | | | | | | |
| Property, plant and equipment | **2** | 2 | **–** | – | **2** | 2 |
| Other investments | **19** | 84 | **–** | – | **19** | 84 |
| Provisions | **202** | 226 | **–** | – | **202** | 226 |
| Other items | **29** | 46 | **(22)** | (29) | **7** | 17 |
| Tax assets (liabilities) | **252** | 358 | **(22)** | (29) | **230** | 329 |
| Set-off of tax | **(22)** | (29) | **22** | 29 | **–** | – |
| **Net tax assets (liabilities)** | **230** | 329 | **–** | – | **230** | 329 |
| **Movements** | | | | | | |
| Balance at the beginning of the financial year | **358** | 88 | **(29)** | (129) | | |
| (Charged) credited to the income statement | **(106)** | 250 | **64** | (59) | | |
| Credited (charged) to equity | **–** | 20 | **(57)** | 159 | | |
| **Balance at the end of the financial year** | **252** | 358 | **(22)** | (29) | | |

There are no unrecognised deferred tax assets and liabilities.

### 10(d) Tax consolidation

From 1 July 2007, all Australian wholly-owned entities of Suncorp-Metway Ltd entered into a single tax sharing agreement which, in the opinion of the directors, limits the joint and severable liability of the wholly-owned subsidiaries in the case of default by head company of the tax consolidated group, Suncorp-Metway Ltd. Under the tax sharing agreement, the wholly-owned entities fully compensate the Company for any current tax payable assumed. The amounts receivable or payable under the agreement are at call.

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

### 10(e) *The Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009* (TOFA legislation)

The TOFA legislation was enacted during the prior financial 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 Group 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 (that is, 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 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.

The Group has not yet determined the potential effect of the TOFA legislation although it is expected there will be no permanent tax adjustments arising on adoption. The Group 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.

## 11. Earnings per share

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

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| Basic earnings per share – cents | **61.81** | 31.62 |
| Diluted earnings per share – cents | **60.10** | 31.11 |

The calculation of diluted earnings per share at 30 June 2010 was based on profit attributable to ordinary shareholders of $824 million (2009: $385 million) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 1,370,607,789 (2009: 1,238,819,876), calculated as follows:

| | Consolidated | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Profit attributable to ordinary equity holders of the Company (basic)** | **780** | 348 |
| Interest expense on reset preference shares (net of tax) | **7** | 5 |
| Interest expense on convertible preference shares (net of tax) | **37** | 32 |
| **Profit attributable to ordinary equity holders of the Company (diluted)** | **824** | 385 |

| | **2010** | 2009 |
|---|---|---|
| | **Number of shares** | Number of shares |
| **Weighted average number of ordinary shares for basic earnings per share calculation** | **1,262,068,396** | 1,100,499,476 |
| Effect of conversion of reset preference shares | **18,015,915** | 22,959,116 |
| Effect of conversion of convertible preference shares | **90,523,478** | 115,361,284 |
| **Weighted average number of ordinary shares for diluted earnings per share calculation** | **1,370,607,789** | 1,238,819,876 |

## 12. Cash and cash equivalents

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Cash and balances with the central bank | **536** | 235 | **118** | 98 |
| Other money market placements | **347** | 2,121 | **211** | 1,269 |
| **Total cash and cash equivalents** | **883** | 2,356 | **329** | 1,367 |
| The above figures are reconciled to cash at the end of the financial year as shown in the statements of cash flows as follows: | | | | |
| Balances as above | **883** | 2,356 | **329** | 1,367 |
| Add: Receivables due from other banks | **232** | 118 | **232** | 118 |
| Less: Payables due to other banks | **(28)** | (29) | **(28)** | (29) |
| | **1,087** | 2,445 | **533** | 1,456 |

## 13. Trading securities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Banking activities** | | | | |
| *Interest-bearing securities at fair value* | | | | |
| Bank bills, certificates of deposits and other negotiable securities | **8,233** | 6,694 | **8,233** | 6,694 |
| **Total trading securities** | **8,233** | 6,694 | **8,233** | 6,694 |

The Group classifies fair values of financial instruments using the fair value hierarchy in order to reflect the significance of observable inputs used in their estimation. A description of the fair value hierarchy can be found in note 41(a). The Group has elected not to provide comparative information for the fair value hierarchy disclosures in accordance with the transitional relief as permitted by AASB 7 *Financial Instruments: Disclosures*.

Trading securities are all financial assets classified at fair value through profit or loss. At 30 June 2010, all trading securities of the Group and Company are classified as Level 2 in the fair value hierarchy. There were no significant transfers between levels in the fair value hierarchy during the year.

## 14. Investment securities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Banking activities** | | | | |
| *Investments at cost* | | | | |
| Shares in subsidiaries | **–** | – | **10,651** | 10,627 |
| | **–** | – | **10,651** | 10,627 |
| *Available-for-sale investments* | | | | |
| Interest-bearing securities | | | | |
| Negotiable securities | **3,117** | 3,932 | **3,117** | 3,932 |
| Equity securities | **1** | – | **1** | 1 |
| | **3,118** | 3,932 | **3,118** | 3,933 |
| | **3,118** | 3,932 | **13,769** | 14,560 |
| **General Insurance activities** | | | | |
| *Investments designated at fair value through profit or loss* | | | | |
| Interest-bearing securities | | | | |
| Debentures and corporate bonds | **7,117** | 5,933 | **–** | – |
| Government and semi-government securities | **2,698** | 2,784 | **–** | – |
| Discounted securities | **108** | 705 | **–** | – |
| | **9,923** | 9,422 | **–** | – |
| Equity securities | **–** | 1 | **–** | – |
| Unit trusts | **762** | 59 | **–** | – |
| | **10,685** | 9,482 | **–** | – |
| **Life activities** | | | | |
| *Investments designated at fair value through profit or loss* | | | | |
| Interest-bearing securities | | | | |
| Debentures and corporate bonds | **2,137** | 2,049 | **–** | – |
| Government and semi-government securities | **635** | 392 | **–** | – |
| Discounted securities | **64** | 273 | **–** | – |
| | **2,836** | 2,714 | **–** | – |
| Equity securities | **1,346** | 1,410 | **–** | – |
| Property trusts | **282** | 243 | **–** | – |
| Unit trusts | **2,760** | 2,330 | **–** | – |
| Other | **64** | 219 | **–** | – |
| | **7,288** | 6,916 | **–** | – |
| **Total investment securities** | **21,091** | 20,330 | **13,769** | 14,560 |

| | Consolidated | | | |
|---|---|---|---|---|
| | Level 1 2010 $m | Level 2 2010 $m | Level 3 2010 $m | Total 2010 $m |
| **Fair values of investment securities classified by the fair value hierarchy[1]** | | | | |
| Interest-bearing securities | **1,225** | **14,595** | **56** | **15,876** |
| Equity securities | **1,347** | **–** | **–** | **1,347** |
| Property trusts | **282** | **–** | **–** | **282** |
| Unit trusts | **197** | **3,321** | **4** | **3,522** |
| Other | **57** | **–** | **7** | **64** |
| Total investment securities measured at fair value | **3,108** | **17,916** | **67** | **21,091** |
| Investment securities measured at cost | | | | **–** |
| **Total investment securities** | | | | **21,091** |

1 The Group classifies fair values of financial instruments using the fair value hierarchy in order to reflect the significance of observable inputs used in their estimation. A description of the fair value hierarchy can be found in note 41(a). The Group has elected not to provide comparative information for the fair value hierarchy disclosures in accordance with the transitional relief as permitted by AASB 7 *Financial Instruments: Disclosures.*

| | Company | | | |
|---|---|---|---|---|
| | Level 1<br>2010<br>$m | Level 2<br>2010<br>$m | Level 3<br>2010<br>$m | Total<br>2010<br>$m |
| **Fair values of investment securities classified by the fair value hierarchy[1]** | | | | |
| Interest-bearing securities | **–** | **3,117** | **–** | **3,117** |
| Equity securities | **1** | **–** | **–** | **1** |
| Total investment securities measured at fair value | **1** | **3,117** | **–** | **3,118** |
| Investment securities measured at cost | | | | **10,651** |
| **Total investment securities** | | | | **13,769** |

Level 3 securities consist of interest-bearing securities and holdings in unlisted unit trusts which have suspended daily redemptions. The valuation methodology used for these Level 3 investment securities is based on the discount rate determined by the relative trading value to face value for interest-bearing securities and the latest available redemption price published by the external manager for the unlisted unit trusts. The movements in investment securities classified as Level 3 in the fair value hierarchy during the financial year are as follows:

| | Consolidated | Company |
|---|---|---|
| | **2010**<br>**$m** | **2010**<br>**$m** |
| **Investment securities classified as Level 3 in the fair value hierarchy** | | |
| Balance at the beginning of the financial year | **262** | **–** |
| Total gains or losses included in profit or loss for the financial year: | | |
| General insurance investment revenue | | |
| – insurance funds | **(2)** | **–** |
| – shareholder funds | **(2)** | **–** |
| Life insurance investment revenue | **1** | **–** |
| Transfer out of Level 3 | **(17)** | **–** |
| Purchases | **75** | **–** |
| Sales | **(224)** | **–** |
| Issues | **14** | **–** |
| Settlements | **(40)** | **–** |
| **Balance at the end of the financial year** | **67** | **–** |
| **Investment securities classified as Level 3 in the fair value hierarchy** | | |
| Included within the above reconciliation are the following total gains or losses in respect of assets held at the end of the financial year: | | |
| General insurance investment revenue | | |
| – insurance funds | **(2)** | **–** |
| – shareholder funds | **(2)** | **–** |

Investment securities totalling $17 million were transferred from Level 3 to Level 2 of the fair value hierarchy during the financial year. The fair value of the underlying assets is no longer reliant on unobservable inputs.

The Group believes that its fair value estimates are appropriate. Changing one or more of the inputs to reasonably possible alternative assumptions would not result in material changes to the income statement in respect of investment securities classified as Level 3 in the fair value hierarchy.

## 15. Loans, advances and other receivables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Banking activities**[1] | | | | |
| Housing loans[2] | **29,107** | 28,302 | **29,107** | 28,301 |
| Consumer loans | **569** | 610 | **569** | 610 |
| Business loans | **20,307** | 25,460 | **19,299** | 23,772 |
| Structured finance | **–** | 4 | **–** | 4 |
| Other lending | **1,834** | 1,018 | **1,831** | 1,012 |
| Bank acceptances of customers | **1** | 3 | **1** | 3 |
| | **51,818** | 55,397 | **50,807** | 53,702 |
| Provision for impairment (note 16) | **(672)** | (759) | **(657)** | (740) |
| | **51,146** | 54,638 | **50,150** | 52,962 |
| **General Insurance activities** | | | | |
| Premiums outstanding[3] | **1,762** | 1,670 | **–** | – |
| Investment revenue receivable[4] | **–** | 5 | **–** | – |
| Investment settlements[3] | **98** | 1 | **–** | – |
| Insurance managed funds receivable[4] | **29** | 60 | **–** | – |
| Insurance recoveries and other receivables[3] | **103** | 39 | **–** | – |
| Outstanding proceeds from sale of investments in joint ventures | **280** | – | **–** | – |
| | **2,272** | 1,775 | **–** | – |
| **Life Insurance activities** | | | | |
| Premiums outstanding[3] | **19** | 21 | **–** | – |
| Investment revenue receivable[4] | **14** | 35 | **–** | – |
| Investment settlements[3] | **59** | 37 | **–** | – |
| Reinsurance recoveries receivable[3] | **65** | 77 | **–** | – |
| Other[4] | **149** | 170 | **–** | – |
| | **306** | 340 | **–** | – |
| **Total loans, advances and other receivables** | **53,724** | 56,753 | **50,150** | 52,962 |
| Current | **13,293** | 11,283 | **10,619** | 9,095 |
| Non-current | **40,431** | 45,470 | **39,531** | 43,867 |
| **Total loans, advances and other receivables** | **53,724** | 56,753 | **50,150** | 52,962 |

1 Banking loans and receivables are measured at amortised cost.
2 Includes securitised housing loan balances of $5.2 billion (2009: $6.1 billion) which have an associated securitised liability of $5.2 billion (2009: $6.1 billion).
3 Financial assets designated at fair value through profit or loss.
4 Financial assets measured at amortised cost.

## 16. Provision for impairment

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Banking activities** | | | | |
| *Collective provision* | | | | |
| Balance at the beginning of the financial year | **282** | 80 | **269** | 74 |
| (Credit) charge against impairment losses (note 9) | **(81)** | 202 | **(75)** | 195 |
| **Balance at the end of the financial year** | **201** | 282 | **194** | 269 |
| *Specific provision* | | | | |
| Balance at the beginning of the financial year | **477** | 74 | **471** | 70 |
| Charge against impairment losses | **506** | 490 | **494** | 484 |
| Specific provision released to income statement | **(407)** | (37) | **(399)** | (33) |
| Increase in specific provision for impairment (note 9) | **99** | 453 | **95** | 451 |
| Unwind of discount | **(105)** | (50) | **(103)** | (50) |
| **Balance at the end of the financial year** | **471** | 477 | **463** | 471 |
| **Total provision for impairment of loans, advances and other receivables** | **672** | 759 | **657** | 740 |

## 17. Reinsurance and other recoveries

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **General Insurance** | | | | |
| Expected undiscounted outstanding reinsurance and other recoveries | **1,715** | 1,432 | **–** | – |
| Discount to present value | **(164)** | (121) | **–** | – |
| | **1,551** | 1,311 | **–** | – |
| **Life Insurance** | | | | |
| Gross policy liabilities ceded under reinsurance | **327** | 311 | **–** | – |
| | **327** | 311 | **–** | – |
| Current | **854** | 703 | **–** | – |
| Non-current | **1,024** | 919 | **–** | – |
| **Total outstanding reinsurance and other recoveries** | **1,878** | 1,622 | **–** | – |

## 18. Deferred insurance assets

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Deferred acquisition costs** | | | | |
| Deferred acquisition costs at beginning of the financial year | **557** | 527 | **–** | – |
| Acquisition costs deferred | **909** | 992 | **–** | – |
| Amortisation charged to the income statement | **(972)** | (943) | **–** | – |
| Write-off for liability adequacy test deficiency | **–** | (19) | **–** | – |
| **Deferred acquisition costs at end of the financial year** | **494** | 557 | **–** | – |
| **Deferred reinsurance assets** | | | | |
| Deferred reinsurance assets at beginning of the financial year | **136** | 113 | **–** | – |
| Reinsurance premiums paid during the year | **575** | 591 | **–** | – |
| Reinsurance premiums charged to the income statement | **(579)** | (568) | **–** | – |
| Foreign currency exchange movement | **1** | – | **–** | – |
| **Deferred reinsurance assets at end of the financial year** | **133** | 136 | **–** | – |
| **Other deferred assets** | | | | |
| Other deferred assets at beginning of the financial year | **106** | 95 | **–** | – |
| Other expenses deferred | **246** | 212 | **–** | – |
| Amortisation charged to the income statement | **(231)** | (201) | **–** | – |
| **Other deferred assets at end of the financial year** | **121** | 106 | **–** | – |
| Current | **727** | 785 | **–** | – |
| Non-current | **21** | 14 | **–** | – |
| **Total deferred insurance assets** | **748** | 799 | **–** | – |

## 19. Investments in associates and joint ventures

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

| | | | Ownership interest | | Consolidated carrying amount | |
|---|---|---|---|---|---|---|
| Name of entity | Country of incorporation | Principal activity | **2010 %** | 2009 % | **2010 $m** | 2009 $m |
| **Associates** | | | | | | |
| NTI Ltd[1] | Australia | Management services | **50** | 50 | **49** | 44 |
| AA Warranty Ltd[2] | New Zealand | Non-trading | **50** | 50 | **–** | – |
| AA Life Services Ltd[3] | New Zealand | Marketing of financial services products | **50** | 50 | **1** | – |
| Capital Managers Pty Ltd | Australia | Distribution | **22** | 22 | **–** | – |
| Standard Pacific (Qld) Pty Ltd[4] | Australia | Distribution | **75** | 50 | **–** | 1 |
| MMc Limited | New Zealand | Funds administration | **–** | 50 | **–** | 1 |
| | | | | | **50** | 46 |
| **Joint venture entities** | | | | | | |
| RACQ Insurance Limited | Australia | Insurance | **–** | 50 | **–** | 112 |
| RAA – GIO Insurance Holdings Ltd | Australia | Insurance | **–** | 50 | **–** | 16 |
| Australand Land and Housing No 5 (Hope Island) Pty Ltd | Australia | Property investment | **50** | 50 | **–** | 5 |
| Australand Land and Housing No 7 (Hope Island) Pty Ltd | Australia | Property investment | **50** | 50 | **–** | 5 |
| Australand Land and Housing No 8 (Hope Island) Pty Ltd | Australia | Property investment | **50** | 50 | **–** | 5 |
| RACT Insurance Pty Ltd[5] | Australia | Insurance | **65** | 70 | **12** | 12 |
| | | | | | **12** | 155 |
| | | | | | **62** | 201 |

| | | **2010 %** | 2009 % |
|---|---|---|---|
| **Joint venture operations** | | | |
| National Transport Insurance | Facilitation of insurance arrangements | **50** | 50 |
| **Joint venture assets** | | | |
| Polaris data centre | Property investment | **50** | 50 |
| Spring farm development | Property development | **50** | 50 |

1 NTI Ltd has a 31 December balance date.

2 AA Warranty Ltd has a 30 June (2009: 31 March) balance date.

3 AA Life Services Ltd has a 30 September balance date.

4 Following the acquisition of an additional 25% interest in Standard Pacific (Qld) Pty Ltd on 24 July 2009, the Group now has a 75% controlling interest in this entity and it is consolidated.

5 While the Group's ownership interest in RACT Insurance Pty Ltd is 65% (2009: 70%), strategic and operating decisions relating to its activities are made jointly.

## 19. Investments in associates and joint ventures (continued)

### 19(a) Investments in associates

| | Consolidated | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Movements in carrying amounts of associates** | | |
| Balance at the beginning of the financial year | **46** | 101 |
| Share of profits from ordinary activities after income tax | **1** | – |
| Increased investments in associates | **5** | – |
| Transfer from (to) assets held for sale | **–** | 45 |
| Transfer to investment in subsidiaries | **(1)** | – |
| Disposal of associate | **(1)** | (100) |
| **Balance at the end of the financial year** | **50** | 46 |
| **Results of associates** | | |
| Share of associates' profit before income tax | **1** | 1 |
| Share of income tax expense | **–** | (1) |
| **Share of associates' net profit – as disclosed by associates** | **1** | – |
| **Share of associates' lease commitments** | **2** | – |
| **Summary financial information of associates** | | |
| Revenues (100%) | **52** | 54 |
| Profit (100%) | **1** | 2 |
| Share of associates' net profit (loss) recognised | **1** | – |
| Total assets (100%) | **25** | 41 |
| Total liabilities (100%) | **(10)** | (34) |
| Net assets as reported by associates (100%) | **15** | 7 |
| Share of associates' net assets equity accounted | **50** | 46 |

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

## 19(b) Investments in joint venture entities

| | Consolidated | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Movements in carrying amounts of joint venture entities** | | |
| Balance at the beginning of the financial year | **155** | 163 |
| Share of profits (losses) after income tax | **28** | (3) |
| Dividends received/receivable | **(83)** | – |
| Impairment losses | **(17)** | (19) |
| Disposals of joint ventures | **(110)** | – |
| Increased investments in joint venture entities | **39** | 14 |
| **Balance at the end of the financial year** | **12** | 155 |
| **Results of joint venture entities** | | |
| Share of joint venture entities' profit before income tax | **39** | 4 |
| Share of income tax expense | **(11)** | (7) |
| **Share of joint venture entities' net (loss) profit – as disclosed by joint venture entities** | **28** | (3) |
| **Share of joint venture entities' lease commitments** | **2** | 5 |
| **Summary financial information of joint venture entities** | | |
| Revenues (100%) | **604** | 675 |
| Expenses (100%) | **549** | 682 |
| Profit (loss) (100%) | **55** | (6) |
| Share of joint venture entities' net profit (loss) recognised | **28** | (3) |
| Current assets (100%) | **153** | 558 |
| Non-current assets (100%) | **–** | 822 |
| Current liabilities (100%) | **(89)** | (651) |
| Non-current liabilities (100%) | **–** | (433) |
| Net assets as reported by joint venture entities (100%) | **64** | 296 |
| Share of joint venture entities' net assets equity accounted | **12** | 155 |

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

## 19(c) Joint venture assets

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

| | Consolidated | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| Other assets – development property | **44** | 49 |
| Property, plant and equipment | **69** | 71 |
| **Total joint venture assets** | **113** | 120 |

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

## 20. Property, plant and equipment

| | Land | Buildings | Leasehold Improvements | Plant & Equipment | Capital works in progress | Total |
|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m |
| **Consolidated** | | | | | | |
| **2010** | | | | | | |
| Gross carrying amount | **4** | **116** | **280** | **524** | **10** | **934** |
| Less: accumulated depreciation and impairment losses | **–** | **(20)** | **(168)** | **(388)** | **–** | **(576)** |
| **Balance at the end of the financial year** | **4** | **96** | **112** | **136** | **10** | **358** |
| **Movements in property, plant and equipment** | | | | | | |
| Balance at the beginning of the financial year | **4** | **100** | **127** | **169** | **7** | **407** |
| Additions | **–** | **–** | **14** | **35** | **32** | **81** |
| Disposals/write-offs | **–** | **(3)** | **(5)** | **(15)** | **(2)** | **(25)** |
| Depreciation | **–** | **(1)** | **(28)** | **(75)** | **–** | **(104)** |
| Transfers between categories | **–** | **–** | **4** | **23** | **(27)** | **–** |
| Foreign currency exchange movement | **–** | **–** | **–** | **(1)** | **–** | **(1)** |
| **Balance at the end of the financial year** | **4** | **96** | **112** | **136** | **10** | **358** |
| **2009** | | | | | | |
| Gross carrying amount | 4 | 119 | 301 | 511 | 7 | 942 |
| Less: accumulated depreciation and impairment losses | – | (19) | (174) | (342) | – | (535) |
| **Balance at the end of the financial year** | 4 | 100 | 127 | 169 | 7 | 407 |
| **Movements in property, plant and equipment** | | | | | | |
| Balance at the beginning of the financial year | 4 | 26 | 109 | 198 | 13 | 350 |
| Additions | – | 75 | 33 | 27 | 44 | 179 |
| Disposals/write-offs | – | – | – | (19) | (2) | (21) |
| Depreciation | – | (1) | (27) | (73) | – | (101) |
| Transfers between categories | – | – | 12 | 36 | (48) | – |
| **Balance at the end of the financial year** | 4 | 100 | 127 | 169 | 7 | 407 |

**Company**

The Company's property, plant and equipment comprises: land and buildings of $31 million (2009: $34 million) and leasehold improvements of $4 million (2009: $5 million).

## 21. Investment property

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| *Freehold land and buildings* | | | | |
| Balance at the beginning of the financial year | **160** | 171 | **–** | – |
| Additions/capitalised expenditure | **–** | 4 | **–** | – |
| Disposals | **(4)** | (3) | **–** | – |
| Fair value adjustments | **(12)** | (12) | **–** | – |
| **Balance at the end of the financial year** | **144** | 160 | **–** | – |

During the financial year ended 30 June 2010, $16 million (2009: $22 million) was recognised as rental income in the consolidated income statement and $1 million (2009: $7 million) of direct operating expenses were recognised in the consolidated income statement relating to investment property.

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

The basis of valuation of the investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases and rental income. The 2010 valuations were based on independent assessments made by a member of the Australian Property Institute.

A General Insurance entity entered into lease securitisation and defeasance transactions in May 1993 under which the entity has agreed not to sell or create a charge over investment properties with a fair value of $114 million (2009: $122 million) without the consent of the other parties to the transaction.

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Less than one year | **11** | 10 | **–** | – |
| Between one and five years | **36** | 39 | **–** | – |
| More than five years | **10** | 15 | **–** | – |
| | **57** | 64 | **–** | – |

## 22. Other assets

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Deferred expenditure – lease brokerage | **6** | 14 | **–** | – |
| Accrued income | **273** | 211 | **139** | 116 |
| Prepayments | **41** | 33 | **24** | 20 |
| Sundry assets | **50** | 60 | **144** | 138 |
| Surplus on defined benefit funds | **9** | 2 | **–** | – |
| Current tax receivable | **2** | 6 | **2** | – |
| Development property | **44** | 49 | **–** | 1 |
| **Total other assets** | **425** | 375 | **309** | 275 |
| Current | **372** | 324 | **309** | 274 |
| Non-current | **53** | 51 | **–** | 1 |
| **Total other assets** | **425** | 375 | **309** | 275 |

## 23. Goodwill and intangible assets

| | Goodwill | Brands | Customer contracts & other relationships | Outstanding claims liability intangible | Franchise systems | Software | Total |
|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m |
| **Consolidated** | | | | | | | |
| **2010** | | | | | | | |
| Gross carrying amount | **5,407** | **661** | **1,285** | **187** | **–** | **551** | **8,091** |
| Less: accumulated amortisation and impairment losses | **(260)** | **(93)** | **(549)** | **(104)** | **–** | **(458)** | **(1,464)** |
| **Balance at the end of the financial year** | **5,147** | **568** | **736** | **83** | **–** | **93** | **6,627** |
| **Movements in intangible assets** | | | | | | | |
| Balance at the beginning of the financial year | **5,135** | **593** | **843** | **106** | **7** | **152** | **6,836** |
| Acquisitions through business combinations | **1** | **–** | **–** | **–** | **–** | **–** | **1** |
| Other acquisitions | **9** | **–** | **1** | **–** | **–** | **39** | **49** |
| Amortisation | **–** | **(25)** | **(108)** | **(23)** | **–** | **(98)** | **(254)** |
| Foreign currency exchange movement | **2** | **–** | **–** | **–** | **–** | **–** | **2** |
| Disposals/write-offs | **–** | **–** | **–** | **–** | **(7)** | **–** | **(7)** |
| **Balance at the end of the financial year** | **5,147** | **568** | **736** | **83** | **–** | **93** | **6,627** |
| **2009** | | | | | | | |
| Gross carrying amount | 5,395 | 661 | 1,283 | 187 | 15 | 526 | 8,067 |
| Less: accumulated amortisation and impairment losses | (260) | (68) | (440) | (81) | (8) | (374) | (1,231) |
| **Balance at the end of the financial year** | 5,135 | 593 | 843 | 106 | 7 | 152 | 6,836 |
| **Movements in intangible assets** | | | | | | | |
| Balance at the beginning of the financial year | 5,131 | 617 | 972 | 133 | 8 | 237 | 7,098 |
| Other acquisitions | – | – | – | – | – | 41 | 41 |
| Amortisation | – | (24) | (129) | (27) | (1) | (109) | (290) |
| Foreign currency exchange movement | 4 | – | – | – | – | 1 | 5 |
| Write-offs | – | – | – | – | – | (18) | (18) |
| **Balance at the end of the financial year** | 5,135 | 593 | 843 | 106 | 7 | 152 | 6,836 |

### 23(a) Methods and assumptions for valuation

#### Franchise systems

Franchise systems were recorded at cost.

#### Brands

On acquisition, the fair value of brands has been determined using the relief from royalty method. In determining the value of brands, royalty rates have been determined based on the strengths of each brand and its importance to the customers' purchasing decisions. Royalty rates have been applied to net earned premiums for General Insurance brands and total revenues for Life brands. Premium and fee income forecasts are based on management projections for the first three years and then long-term growth rates.

#### Customer contracts and other relationships

***Value of in-force customer contracts***

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

***Customer relationships***

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

***Distribution relationships***

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

**General Insurance outstanding claims liabilities**

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

**Software**

Software acquired in business combinations has been valued using the replacement cost approach. Internally developed or purchased software is measured as described in note 3(m).

## 23(b) Amortisation and impairment charge

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

| | | Maximum remaining useful life | |
|---|---|---|---|
| Category | Useful life | 2010 | 2009 |
| Brands | 1-50 years | 47 years | 48 years |
| Customer contracts | 1-20 years | 17 years | 18 years |
| Customer relationships | 4-30 years | 27 years | 28 years |
| Development software | 3-5 years | 5 years | 5 years |
| Distribution relationships | 5-15 years | 12 years | 13 years |
| Franchise systems | 20 years | nil | 9 years |
| Outstanding claims liabilities intangible | 20 years | 17 years | 18 years |

## 23(c) Impairment tests for cash-generating units containing goodwill

The following units have significant carrying amounts of goodwill:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| General Insurance – Commercial unit | **1,759** | 1,392 | **–** | – |
| General Insurance – Personal unit | **2,373** | 2,791 | **–** | – |
| Life unit | **515** | 452 | **–** | – |
| Vero New Zealand unit | **250** | 250 | **–** | – |
| Banking unit | **250** | 250 | **–** | – |
| | **5,147** | 5,135 | **–** | – |

Goodwill is an intangible asset with an indefinite life, and therefore the carrying amount of the cash-generating units (CGUs) to which goodwill is allocated must be tested for impairment annually. The significant CGUs to which goodwill has been allocated are set out above. During the financial year, the goodwill allocated to CGUs has changed due to a restructure of the existing operating segments identified with the adoption of AASB 8 *Operating Segments*, which resulted in compulsory third party insurance being reclassified from personal insurance to commercial insurance.

The impairment test for goodwill is performed by comparing the CGU's carrying amount with its recoverable amount. The recoverable amount of each CGU is based on its value in use and was determined with the assistance of independent valuers. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external and internal sources of data.

## 23. Goodwill and intangible assets (continued)

### 23(c) Impairment tests for cash-generating units containing goodwill (continued)

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

– cash flows being projected from the financial forecasts prepared by the business units covering a five year period from 1 July 2010 (2009: seven year period from 1 July 2009). Cash flows beyond the next five years (2009: seven years) are extrapolated using a constant growth rate of 3.0% (2009: 3.0%), which does not exceed the long-term average growth rate for the industry.

– in 2009, management believed the use of a seven year profit forecast was more appropriate than a shorter period as it included a number of years of more normalised returns following the global financial crisis.

– post-tax discount rates ranging from 10.5% to 11.5% (2009: 10.0% to 11.5%), representing each CGU's cost of capital based on a weighted average of risk based capital. This is equivalent to 14.1% to 15.5% (2009: 12.8% to 14.8%) on a pre-tax basis.

The following table summarises the key assumptions used in the value in use calculations and, where relevant, shows the values the assumptions would need to move to (trigger points) before the carrying value for the CGU would exceed its recoverable value.

| | Discount rate | | Terminal growth rate | | Return on GI technical reserves | | Return on GI shareholder funds | | Average growth in net earned premium | |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash-generating unit | Assumed % | Trigger point % | Assumed % | Trigger point % | Assumed % | Trigger point % | Assumed % | Trigger point % | Assumed % | Trigger point % |
| **2010** | | | | | | | | | | |
| Personal Insurance | **10.5** | **17.1** | **3.0** | **n/a** | **5.7** | **< 0** | **6.8** | **< 0** | **7.0** | **< 0** |
| Commercial Insurance | **10.5** | **12.5** | **3.0** | **n/a** | **5.7** | **2.0** | **6.8** | **0** | **7.5** | **< 0** |
| Vero New Zealand | **10.5** | **15.3** | **3.0** | **n/a** | **5.5** | **< 0** | **5.8** | **< 0** | **7.6** | **< 0** |
| Banking | **11.5** | **14.6** | **3.0** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |

| | Discount rate | | Terminal growth rate | | Investment returns 2010/11 to 2015/16 | | Average growth in net earned premium | |
|---|---|---|---|---|---|---|---|---|
| Cash-generating unit | Assumed % | Trigger point % | Assumed % | Trigger point % | Assumed % | Trigger point % | Assumed % | Trigger point % |
| **2009** | | | | | | | | |
| Personal Insurance | 10.0 | 12.9 | 3.0 | n/a | 6.5 | 3.2 | 5.1 | n/a |
| Commercial Insurance | 10.0 | 11.3 | 3.0 | 0.5 | 6.5 | 5.3 | 4.5 | 2.0 |
| Vero New Zealand | 10.0 | n/a | 3.0 | n/a | 6.5 | n/a | 8.3 | n/a |
| Banking | 11.5 | 13.2 | 3.0 | n/a | n/a | n/a | n/a | n/a |

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

The recoverable amount of the Life CGU has been determined by reference to a traditional embedded value of the life portfolios and other relevant businesses and adding a component for the value of future new business. The embedded value of the Life Companies (and the value of one year's new business) was assessed as at 30 June 2010 using discounted cash flow techniques. The value of the businesses other than the Life Companies within the Life CGU was also assessed as at 30 June 2010. Key assumptions in the value-in-use calculations include the effective risk-adjusted discount rates and the multiple applied to the value of one year's sales.

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Australia** | **New Zealand** | Australia | New Zealand |
| | **%** | **%** | % | % |
| **Investment return for underlying asset classes** | | | | |
| Risk-free rate (at 10 years) | **5.2** | **5.4** | 4.0 | 4.7 |
| Cash | **5.7** | **5.5** | 4.4 | 5.0 |
| Fixed interest | **5.8** | **5.8** | 5.1 | 4.7 |
| Australian equities (includes allowance for franking credits) | **10.3** | **10.0** | 7.1 | 9.2 |
| International equities | **9.2** | **9.9** | 7.1 | 8.2 |
| Property | **7.7** | **8.0** | 6.6 | 7.2 |
| **Investment returns (net of tax)** | **5.2** | **5.2** | 4.9 | 4.3 |
| **Inflation** | | | | |
| Benefit indexation | **3.0** | **2.5** | 3.0 | 2.5 |
| Expenses inflation | **3.0** | **2.5** | 3.0 | 2.5 |
| **Risk discount rate** | **9.2** | **9.4** | 8.0 | 8.7 |

Applying the value-in-use amount and a multiple of three times one year's new sales, exceeds the current carrying value of the Life CGU. An increase in the assumptions applied to the discount rate by more than 0.1%, an increase in the discontinuance rates assumptions by 1%, or an increase in renewal expense assumptions by 1% would result in the carrying value exceeding the recoverable amount applying the traditional embedded value of the Life CGU.

The Embedded Value differs from what is known as an Appraisal Value, as it does not consider the value of future new business that the Life CGU is expected to write.

At 30 June 2010, the recoverable amount of each CGU exceeds its carrying amount and, as a result, no impairment loss has been recognised in the consolidated income statement (2009: nil).

## 24. Deposits and short-term borrowings

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Unsecured** | | | | |
| Call deposits | **8,773** | 10,041 | **8,953** | 10,152 |
| Term deposits | **17,519** | 13,430 | **17,519** | 13,430 |
| Short-term securities issued | **6,455** | 11,497 | **6,455** | 11,497 |
| Offshore borrowings at amortised cost | **182** | 136 | **182** | 136 |
| Offshore borrowings designated at fair value through profit or loss | **1,029** | 2,573 | **1,029** | 2,573 |
| Drawdown facility[1] | **75** | 130 | **–** | – |
| Accrued interest | **65** | 59 | **65** | 59 |
| **Total deposits and short-term borrowings** | **34,098** | 37,866 | **34,203** | 37,847 |

1 The drawdown facility is secured over the assets of the NZ Guardian Trust Wholesale Mortgage Fund.

As described in note 3(p)(i), the Group has designated certain short-term offshore borrowings as being fair value through profit or loss. All other deposits and short-term borrowings are recognised at amortised cost.

The Group classifies fair values of financial instruments using the fair value hierarchy in order to reflect the significance of observable inputs used in their estimation. A description of the fair value hierarchy can be found in note 41(a). At 30 June 2010, offshore borrowings designated at fair value through profit or loss classified as Level 1 of the fair value hierarchy was nil and Level 2 of the fair value hierarchy was $1,029 million. There were no significant transfers between the levels in the fair value hierarchy during the year. The Group has elected not to provide comparative information for the fair value hierarchy disclosures in accordance with the transitional relief as permitted by AASB 7 *Financial Instruments: Disclosures*.

Deposits and short-term borrowings outstanding at 30 June 2010 of $280 million (2009: $3,235 million) have been obtained under repurchase agreements with the Reserve Bank of Australia.

## 25. Payables and other liabilities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Overdrafts | **43** | 66 | **–** | – |
| Outstanding settlements for subordinated notes repurchased | **–** | 321 | **–** | 321 |
| Unpresented bank cheques | **41** | 38 | **41** | 38 |
| Accrued interest payable | **562** | 415 | **414** | 406 |
| Amounts due to reinsurers | **137** | 132 | **–** | – |
| Trade creditors and accrued expenses | **916** | 992 | **358** | 490 |
| Investment settlements | **125** | 336 | **–** | – |
| Bank acceptances | **1** | 3 | **1** | 3 |
| Other liabilities | **49** | 42 | **–** | – |
| **Total payables and other liabilities** | **1,874** | 2,345 | **814** | 1,258 |
| Current | **1,803** | 2,289 | **814** | 1,258 |
| Non-current | **71** | 56 | **–** | – |
| **Total payables and other liabilities** | **1,874** | 2,345 | **814** | 1,258 |

## 26. Employee benefit obligations

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Deficit of plan assets over defined benefit obligations | **25** | 25 | **–** | – |
| Employee benefits and related on-costs liabilities | **255** | 226 | **–** | – |
| **Total employee benefit obligations** | **280** | 251 | **–** | – |
| Provision for employee benefits – current | **204** | 179 | **–** | – |
| Provision for employee benefits – non-current | **76** | 72 | **–** | – |
| **Total employee benefit obligations** | **280** | 251 | **–** | – |

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

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| Weighted average rate of increases in annual employee benefits to settlement of the liabilities | **3.0%** | 3.0%–4.0% |
| Weighted average discount rate | **4.50%–4.67%** | 4.56%–5.45% |
| Weighted average term to settlement of liabilities | **3–4 years** | 3–7 years |

## 26(a) Defined benefit funds

Each superannuation fund administered on behalf of the employees of the Group provides benefits to members on retirement, death or disability. All new employees are currently being given membership of defined contribution funds rather than defined benefit funds. Certain subsidiaries sponsor seven (2009: seven) defined benefits superannuation plans for employees. In total, three (2009: three) funds are established for Australian employees, and four (2009: four) funds for New Zealand employees.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuaries use the Projected Unit Cost (PUC) method to determine the present value of the defined benefit obligations, the related current service cost and any past service cost. As at balance date, three Australian funds were in surplus, one New Zealand fund had no surplus or deficit, with the other three New Zealand funds in deficit (2009: one Australian fund and one New Zealand fund were in surplus, one Australian fund had no surplus or deficit, with the other four funds in deficit). The Group has no obligation to settle any liabilities with an immediate contribution or additional one-off contributions. The Group intends to continue to contribute to the defined benefit funds at rates of 0% – 20% (2009: 0% – 20%) of salaries in line with the actuaries' latest recommendations. The amount of expected contributions to be paid to the plans during the next financial year is $4 million (2009: $5 million).

| | **Surplus** | **(Deficit)** | **Net surplus (deficit)** | Surplus | (Deficit) | Net surplus (deficit) |
|---|---|---|---|---|---|---|
| | **2010 $m** | **2010 $m** | **2010 $m** | 2009 $m | 2009 $m | 2009 $m |
| **Defined benefit funds – surplus (deficit) position** | | | | | | |
| **Australia** | | | | | | |
| Suncorp Staff Superannuation Plan | **1** | **–** | **1** | 1 | – | 1 |
| Promina Group Staff Superannuation Fund | **7** | **–** | **7** | – | (1) | (1) |
| AAMI Staff Superannuation Fund | **1** | **–** | **1** | – | – | – |
| **New Zealand** | | | | | | |
| Vero and Asteron New Zealand Staff Pension Scheme | **–** | **(19)** | **(19)** | – | (18) | (18) |
| RIG Superannuation Fund | **–** | **(5)** | **(5)** | – | (5) | (5) |
| Commercial Union General Insurance Staff Pension Scheme | **–** | **(1)** | **(1)** | – | (1) | (1) |
| Guardian Assurance Superannuation Fund | **–** | **–** | **–** | 1 | – | 1 |
| **Total surplus (deficit)** | **9** | **(25)** | **(16)** | 2 | (25) | (23) |

## 26. Employee benefit obligations (continued)

### 26(a) Defined benefit funds (continued)

| | Consolidated | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Present value of the defined benefit funds** | | |
| Fair value of fund assets | **159** | 154 |
| Present value of funded defined benefit obligations | **(73)** | (30) |
| Present value of partly funded defined benefit obligations | **(94)** | (139) |
| Adjustment for contributions tax | **(8)** | (8) |
| **Net liability recognised in the statement of financial position** | **(16)** | (23) |
| **Changes in the present value of the defined benefit obligation:** | | |
| Defined benefit obligation at the beginning of the financial year | **169** | 192 |
| Current service cost | **4** | 6 |
| Interest cost | **7** | 8 |
| Actuarial losses (gains) | **5** | (10) |
| Benefits paid | **(19)** | (28) |
| Foreign currency exchange movement | **1** | 1 |
| **Defined benefit obligation at the end of the financial year** | **167** | 169 |
| **Changes in the fair value of fund assets:** | | |
| Fair value of fund assets at the beginning of the financial year | **154** | 198 |
| Expected return on fund assets | **9** | 12 |
| Actuarial gains (losses) | **11** | (37) |
| Contributions by subsidiaries | **4** | 8 |
| Benefits paid | **(19)** | (28) |
| Foreign currency exchange movement | **–** | 1 |
| **Fair value of fund assets at the end of the financial year** | **159** | 154 |
| **Expense (income) recognised in the income statement** | | |
| Current service cost | **4** | 6 |
| Interest cost | **7** | 8 |
| Expected return on fund assets | **(9)** | (12) |
| | **2** | 2 |
| **The expense (income) is recognised in the following line items in the income statement:** | | |
| Other income | **(1)** | (1) |
| Operating expenses | **3** | 3 |
| | **2** | 2 |
| **Expense recognised in the statement of comprehensive income** | | |
| Actuarial (gains) losses | **(6)** | 27 |
| Decrease in allowance for contributions tax on net liability | **1** | 2 |
| Effect of recognition limit on surplus | **–** | (5) |
| | **(5)** | 24 |
| **Cumulative actuarial losses (gains) recognised in the statement of comprehensive income[1]** | **–** | 5 |
| **Actual return on fund assets** | **19** | (19) |

| | % | % |
|---|---|---|
| **Major categories of fund assets as a percentage of total fund assets:** | | |
| Cash | **6** | 9 |
| Equities | **58** | 55 |
| Listed property | **5** | 6 |
| Fixed income | **30** | 30 |
| Other | **1** | – |

1 Total cumulative actuarial gains recognised in equity have been determined from commencement of IFRS.

| | Consolidated | |
|---|---|---|
| | **2010** **%** | 2009 % |
| **Principal actuarial assumptions and employer contributions:** | | |
| (at the balance date expressed as weighted averages) | | |
| **Australia** | | |
| Employer contribution rate[1] | **15.1** | 14.8 |
| Discount rate at 30 June (net of tax) | **4.8** | 4.8 |
| Expected return on fund assets at 30 June (net of tax) | **6.9** | 6.9 |
| Future salary increases | **3.0** | 3.1 |
| **New Zealand** | | |
| Employer contribution rate[1] | **0–20** | 0–20 |
| Discount rate at 30 June (net of tax) | **3.9** | 4.2 |
| Expected return on fund assets at 30 June (net of tax) | **5.7** | 6.0 |
| Future salary increases | **4.0** | 4.0 |

1 Not all funds are contributing for members.

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

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | **2010** **$m** | 2009 $m | 2008 $m | 2007 $m | 2006 $m |
| **Historic summary** | | | | | |
| Present value of defined benefit obligations | **(167)** | (169) | (192) | (212) | (6) |
| Fair value of assets held by the funds | **159** | 154 | 198 | 251 | 9 |
| **Deficit (surplus)** | **(8)** | (15) | 6 | 39 | 3 |
| Experience gains (losses) arising on fund liabilities | **–** | 4 | (11) | 11 | – |
| Experience gains (losses) arising on fund assets | **11** | (35) | (30) | 9 | 1 |

## 26(b) Defined contribution superannuation fund

Total contributions for defined contribution superannuation funds recognised as an expense during the year ended 30 June 2010 were $86 million (2009: $90 million).

## 26. Employee benefit obligations (continued)

### 26(c) Share-based payments

Shareholders approved the establishment of an Exempt Employee Share Plan (EESP) and a Deferred Employee Share Plan (DESP) in March 1997. At the Annual General Meeting on 1 November 2000, shareholders approved the establishment of the Non-Executive Directors Share Plan (NEDSP).

In December 2002, an Executive Performance Share Plan (EPSP) was established.

The Promina Exempt Share Plan was terminated following the acquisition of Promgroup Limited in March 2007. The Promina Deferral Plans and the Senior Management Performance Share Plan were suspended and placed in run-off in March 2007 and there will be no further share allocations under these plans. On 1 April 2007, offers were made to executives and managers who had previously participated in the Promina Senior Management Performance Share Plan to participate in the EPSP.

Shares required for the above share plans are acquired by a special purpose trustee and/or custodial companies in ordinary trading on the Australian Securities Exchange.

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

| **EESP** | |
|---|---|
| Eligibility | Employees (other than participants in the EPSP) having completed 12 months' service (or less at the discretion of the Board). |
| Basis of share offers | Each eligible employee can receive shares up to a maximum value of $1,000 in any one year. The value of shares to be offered each year is determined by the Board based on the Group's overall performance. |
| Price | The price of shares acquired for any offer is based on the Volume Weighted Average Price of the Company's shares over a five day period preceding the date of the offer. |
| Vesting | Fully vested, not subject to forfeiture. |
| Performance criteria | Shares offered to employees under this Plan are not subject to individual performance criteria. |
| Minimum holding period | Three years from date of allocation, or upon cessation of employment. |
| Plan maximum limit | Shares must not be issued under this Plan if the number to be issued would exceed 5% of total shares on issue for the Company when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option plan of the Company. |
| Dividend entitlements | Full entitlement from the date shares are allotted to participants. |
| Voting rights | Participating employees have the right to vote from the date the shares are allotted to the employee in the Plan. |

| **DESP** | |
|---|---|
| Eligibility | Employees having completed three months' service (or less at the discretion of the Board). |
| Basis of share offers | Employees can elect to fund the acquisition of shares to be held under this Plan from their pre-tax remuneration up to a maximum value of $5,000.<br><br>Shares offered to employees under this Plan as part of their terms of employment are subject to achievement of tenure-based criteria or criteria based on the individual's performance. |
| Price | Shares acquired from employees' pre-tax remuneration are purchased on market.<br><br>The price of shares acquired for offers funded by the Company is based on the Volume Weighted Average Price of the Company's shares over a five day period preceding the date of the offer. |
| Vesting | If the acquisition of the shares is funded through the employee's remuneration, the shares are fully vested at the date of acquisition. |
| Performance criteria | If the acquisition of the shares is funded through the employee's remuneration, no performance criteria apply. |
| Minimum holding period | One year or as otherwise specified in the terms of individual offers. |
| Plan maximum limit | Shares must not be issued under this Plan if the number to be issued would exceed 5% of total shares on issue for the Company when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option plan of the Company. |
| Dividend entitlements | Full entitlement from the date shares are held in the Plan. |
| Voting rights | Participating employees have the right to vote from the date the shares are allotted to the employee in the Plan. |

| EPSP | |
|---|---|
| Eligibility | Executives |
| Basis of share offers | Offers under this Plan can be made on commencement of employment and offers are also made on an annual basis.<br><br>The value of shares offered is determined by the Board based on the participating executives' level of remuneration and individual performance.<br><br>Share offers are subject to performance criteria. |
| Price | The price of shares acquired for any offer is based on the Volume Weighted Average Price of the Company's shares over a five day period preceding the date of the offer. |
| Vesting | Vesting of shares is subject to satisfaction of performance criteria over the performance period. |
| Performance criteria | The criteria is based on total shareholder returns (TSR) achieved by the Company over a performance period compared to the TSR of a comparator group comprising the Top 50 Industrial companies in the S&P/ASX 100, excluding listed property trusts.<br><br>If the Company's TSR ranking is less than the 50th percentile no shares will vest, at the 50th percentile 50% of shares will vest and at or above the 75th percentile 100% of the shares will vest. Between the 50th and 75th percentiles, an additional 2% of the shares will vest for each 1% increase (on a straight-line basis) in the Company's TSR ranking above the 50th percentile.<br><br>A performance period generally commences on the date of offer to participate in the Plan and the first performance measurement point is three years after the offer date. The executive has the right to elect to receive an allocation of shares at the end of the performance period, based on the performance result described above, or extend the performance period a further two years. The Board may in limited circumstances elect to satisfy the executive entitlements upon vesting of offered shares through a cash payment in lieu of an allocation of shares. This cash payment would be the market value as quoted on the Australian Securities Exchange on vesting date for the number of allocated shares.<br><br>If the Executive elects to accept the year three performance result, any shares subject to that same offer that are not allocated are forfeited.<br><br>After year three, performance measurements are undertaken on a six monthly basis up to the end of year five. Executives electing to extend the performance period from three to five years waive their right to make any further election in regard to acceptance of a performance result (and therefore cannot have shares allocated) until the end of year five. The executives' entitlement to an allocation of shares at the end of year five will be based on the highest performance measurement result recorded at any of the prescribed performance measurement points over the period from the end of year three to the end of year five inclusive. The Board may in limited circumstances elect to satisfy the executive entitlements upon vesting of offered shares through a cash payment in lieu of an allocation of shares. This cash payment would be the market value as quoted on the Australian Securities Exchange on vesting date for the number of allocated shares. Shares not allocated at the end of year five are forfeited.<br><br>The performance period and measurement points for the offer to the Group CEO is disclosed in the Remuneration Report section of the Directors' Report and may be different to what is described above. |
| Waiver of TSR criteria | In October 2006 the performance criteria was waived in relation to the October 2004 and 2005 offers. Shares were allocated (vested) under those offers on 1 October 2007 and 1 October 2008 respectively. |
| Minimum holding period | No minimum holding period applies once shares have been allocated unless otherwise determined by the Board. |
| Plan maximum limit | Shares must not be issued under this Plan if the number to be issued would exceed 5% of total shares on issue for the Company when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option plan of the Company. |
| Dividend entitlements | Full entitlement from date of allocation (vesting). |
| Voting rights | Voting rights are held by the Plan Trustee until shares have been allocated to/vested with the participating employee. |

## 26. Employee benefit obligations (continued)

### 26(c) Share-based payments (continued)

| **NEDSP** | |
|---|---|
| Eligibility | Non-executive directors or their associates as approved by the Board. |
| Basis of share offers | All non-executive directors are invited to participate in this Plan.<br>If a director elects to participate, they nominate a percentage of their pre-tax remuneration that is to be used to fund the acquisition of shares on market.<br>Shares acquired are held in the Plan for a maximum of seven years from the date of acquisition. |
| Price | Shares acquired from director's pre-tax remuneration are purchased on market at predetermined dates during the year. Those dates reflect the terms of the Company's share trading policy. |
| Vesting | As the acquisition of shares is funded through the participating director's remuneration, the shares are fully vested at the date of acquisition. |
| Performance criteria | Not applicable. |
| Minimum holding period | None. |
| Plan maximum limit | Shares must not be issued under this Plan if the number to be issued would exceed 5% of total shares on issue for the Company when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option plan of the Company. |
| Dividend entitlement | Full entitlement from the date shares are held in the Plan. |
| Voting rights | Participating directors have the right to vote from the date shares are held by the director in the Plan. |

#### Deferred shares

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

| Grant date | Initial vesting date | Fair value of shares $ | **Number of shares 30 June 2010** | Number of shares 30 June 2009 |
|---|---|---|---|---|
| 1 October 2004 | 30 September 2007[1, 4] | 17.87 | **–** | 71,687 |
| 1 October 2005 | 30 September 2008[2, 4] | 24.79 | **65,757** | 65,757 |
| 1 October 2006 | 30 September 2009 | 12.41 | **352,077** | 502,550 |
| 1 April 2007 | 30 September 2009 | 11.41 | **192,075** | 232,619 |
| 17 April 2007 | 30 September 2007[3, 4] | 20.57 | **–** | 2,365 |
| 17 April 2007 | 30 September 2008[3, 4] | 20.57 | **2,168** | 2,168 |
| 17 April 2007 | 30 September 2009[3] | 7.79 | **11,607** | 16,568 |
| 1 October 2007 | 30 September 2010 | 14.60 | **851,589** | 1,103,696 |
| 1 October 2008 | 30 September 2011 | 4.32 | **1,680,121** | 2,210,148 |
| 1 April 2009 | 30 September 2011 | 4.32 | **23,750** | 23,750 |
| 1 October 2009 | 30 September 2012 | 6.34 | **1,926,397** | – |
| 1 October 2009 | 30 September 2013 | 6.56 | **300,000** | – |
| 1 October 2009 | 30 September 2014 | 6.75 | **300,000** | – |
| 3 May 2010 | 3 May 2013 | 5.94 | **313,016** | – |
| | | | **6,018,557** | 4,231,308 |

1 Fair value of these shares was revised from $9.005 to $17.865 as a result of the waiver of TSR criteria upon a modification of a condition on 24 October 2006.
2 Fair value of these shares was revised from $11.22 to $24.79 as a result of the waiver of TSR criteria upon a modification of a condition on 24 October 2006.
3 Adjustment to shares assigned as a result of the entitlement offer made on 17 April 2007.
4 Some employees elected to extend the vesting period by a further two years.

The movement in the number of shares is as follows:

| | Number of shares 2010 | Number of shares 2009 |
|---|---|---|
| Outstanding at the beginning of the financial year | **4,231,308** | 2,877,803 |
| Granted during the year | **3,148,675** | 2,455,743 |
| Allocated during the year | **(7,876)** | (236,590) |
| Forfeited during the year | **(1,343,239)** | (764,284) |
| Released during the year | **(10,311)** | (101,364) |
| **Outstanding at the end of the financial year** | **6,018,557** | 4,231,308 |

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

| Grant date | Fair value at grant date | Share price | Expected volatility %[1] | Vesting period | Dividend yield % | Risk-free interest rate %[2] |
|---|---|---|---|---|---|---|
| 1 October 2004 | $9.01 | $15.47 | 20 | 3 years | 5.3 | 5.17 |
| 1 October 2005 | $11.22 | $19.71 | 20 | 3 years | 4.7 | 5.34 |
| 1 October 2006 | $12.41 | $21.94 | 17 | 3 years | 4.9 | 5.80 |
| 1 April 2007 | $11.41 | $20.80 | 19 | 2.5 years | 5.0 | 6.20 |
| 1 October 2007 | $14.60 | $20.35 | 19 | 5 years | 5.1 | 6.44 |
| 1 October 2008 | $4.32 | $9.61 | 31 | 3 years | 7.2 | 5.24 |
| 1 April 2009 | $4.32 | $5.90 | 31 | 2.5 years | 7.2 | 5.24 |
| 1 October 2009 | $6.34 | $8.82 | 47 | 3 years | 5.6 | 5.17 |
| 1 October 2009 | $6.56 | $8.82 | 47 | 4 years | 5.6 | 5.17 |
| 1 October 2009 | $6.75 | $8.82 | 47 | 5 years | 5.6 | 5.17 |
| 3 May 2010 | $5.94 | $9.11 | 34 | 3 years | 4.6 | 5.35 |

1 Expected volatility is based on the Company's historic volatility.
2 Risk-free interest rate is based on Australian Government bonds.

The expense included in the consolidated income statement in relation to the EPSP for the year ended 30 June 2010 was $11 million (2009: $15 million).

### Other share-based payments

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

| | Dates on which shares were issued/allocated | Total number of shares issued/allocated | Issue/allocation prices | Fair value (market value at dates of issue/allocation) | Amounts received from employees |
|---|---|---|---|---|---|
| **2010 financial year** | **Various dates** | **133,565** | **Various, based on market value at date of issue** | **$1 million** | **$1 million** |
| 2009 financial year | Various dates | 1,194,713 | Various, based on market value at date of issue | $9 million | $5 million |

Shares issued during the year under the DESP and NEDSP that were funded by employee and non-executive director salary sacrifice have a nil impact on the consolidated income statement.

During the financial year, nil (2009: nil) was recognised in the consolidated income statement relating to the share-based payments to acquire shares to the value of nil (2009: nil) for each employee eligible under the EESP.

## 27. Unearned premium liabilities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Balance at the beginning of the financial year | **3,528** | 3,263 | – | – |
| Premiums written during the year | **7,031** | 6,809 | – | – |
| Premiums earned during the year | **(6,889)** | (6,548) | – | – |
| Foreign currency exchange movement | **2** | 4 | – | – |
| **Balance at the end of the financial year** | **3,672** | 3,528 | – | – |
| Current | **3,664** | 3,517 | – | – |
| Non-current | **8** | 11 | – | – |
| **Total unearned premium liabilities** | **3,672** | 3,528 | – | – |

## 28. Outstanding claims liabilities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Outstanding claims – general insurance | **7,886** | 7,369 | **–** | – |
| Outstanding claims – life insurance | **142** | 137 | **–** | – |
| **Total outstanding claims liabilities** | **8,028** | 7,506 | **–** | – |
| Current | **2,977** | 2,773 | **–** | – |
| Non-current | **5,051** | 4,733 | **–** | – |
| | **8,028** | 7,506 | **–** | – |

### Outstanding claims liability – general insurance

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Gross central estimate – undiscounted | **7,818** | 7,204 | **–** | – |
| Risk margin | **1,260** | 1,186 | **–** | – |
| Claims handling expenses | **281** | 319 | **–** | – |
| | **9,359** | 8,709 | **–** | – |
| Discount to present value | **(1,473)** | (1,340) | **–** | – |
| **Gross outstanding claims liabilities – discounted** | **7,886** | 7,369 | **–** | – |
| **Reconciliation of movement in discounted outstanding claims liabilities** | | | | |
| Opening net outstanding claims liabilities | **6,059** | 5,881 | **–** | – |
| *Prior periods* | | | | |
| Claims payments | **(1,614)** | (1,710) | **–** | – |
| Discount unwind | **149** | 190 | **–** | – |
| Margin release on prior periods | **(213)** | (204) | **–** | – |
| Incurred claims due to changes in assumptions and experience | **(286)** | (454) | **–** | – |
| Change in discount rate | **119** | 263 | **–** | – |
| Change in risk margin percentage | **(2)** | – | **–** | – |
| *Current period* | | | | |
| Incurred claims | **4,878** | 4,835 | **–** | – |
| Claims payments | **(2,755)** | (2,742) | **–** | – |
| Closing net outstanding claims liabilities | **6,335** | 6,059 | **–** | – |
| Reinsurance and other recoveries on outstanding claims liabilities | **1,551** | 1,310 | **–** | – |
| **Gross outstanding claims liabilities – discounted** | **7,886** | 7,369 | **–** | – |

## Claims development table

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

| Accident year | Prior $m | 2002 $m | 2003 $m | 2004 $m | 2005 $m | 2006 $m | 2007 $m | 2008 $m | 2009 $m | 2010 $m | Total $m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Consolidated** | | | | | | | | | | | |
| Estimate of ultimate claims cost: | | | | | | | | | | | |
| At end of accident year | | 797 | 1,021 | 1,045 | 1,173 | 1,209 | 1,247 | 1,290 | 1,295 | 1,335 | |
| One year later | | 957 | 994 | 1,060 | 1,064 | 1,120 | 1,180 | 1,152 | 1,279 | | |
| Two years later | | 937 | 932 | 925 | 939 | 1,039 | 1,074 | 1,114 | | | |
| Three years later | | 870 | 828 | 835 | 899 | 963 | 1,044 | | | | |
| Four years later | | 855 | 722 | 764 | 848 | 910 | | | | | |
| Five years later | | 790 | 668 | 724 | 819 | | | | | | |
| Six years later | | 781 | 644 | 728 | | | | | | | |
| Seven years later | | 774 | 650 | | | | | | | | |
| Eight years later | | 813 | | | | | | | | | |
| Current estimate of cumulative claims cost | | 813 | 650 | 728 | 819 | 910 | 1,044 | 1,114 | 1,279 | 1,335 | |
| Cumulative payments | | (741) | (577) | (597) | (621) | (607) | (514) | (349) | (212) | (66) | |
| Outstanding claims liabilities – undiscounted | 777 | 72 | 73 | 131 | 198 | 303 | 530 | 765 | 1,067 | 1,269 | 5,185 |
| Discount | (299) | (11) | (13) | (22) | (32) | (42) | (67) | (101) | (159) | (213) | (959) |
| Deferred premium | – | – | – | – | – | – | – | – | – | (9) | (9) |
| Outstanding claims – long-tail | 478 | 61 | 60 | 109 | 166 | 261 | 463 | 664 | 908 | 1,047 | 4,217 |
| Outstanding claims – short-tail | | | | | | | | | | | 901 |
| Claims handling expense | | | | | | | | | | | 236 |
| Risk margin | | | | | | | | | | | 981 |
| Total net outstanding claims liabilities | | | | | | | | | | | 6,335 |
| Reinsurance and other recoveries on outstanding claims liabilities | | | | | | | | | | | 1,551 |
| **Total gross outstanding claims liabilities** | | | | | | | | | | | 7,886 |

The reconciliation of the movement in outstanding claims liabilities and the claims development table has been presented on a net of reinsurance and other recoveries basis to give the most meaningful insight into the impact on the consolidated income statement.

## 29. Gross policy liabilities and unvested policyowner benefits

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Investment contract policy liabilities** | | | | |
| Gross investment contract liabilities at the beginning of the financial year | **3,423** | 3,938 | **–** | – |
| Movement in investment contract policy liabilities reflected in the income statement | **368** | (452) | **–** | – |
| Foreign currency exchange movement | **–** | 5 | **–** | – |
| Investment contract contributions recognised in policy liabilities | **1,699** | 665 | **–** | – |
| Investment contract withdrawals recognised in policy liabilities | **(1,770)** | (698) | **–** | – |
| Fee expense recognised as change in policy liabilities | **(48)** | (35) | **–** | – |
| **Gross investment contract policy liabilities at the end of the financial year** | **3,672** | 3,423 | **–** | – |
| **Insurance contract policy liabilities** | | | | |
| Gross insurance contract liabilities at the beginning of the financial year | **2,124** | 2,855 | **–** | – |
| Movement in insurance contract policy liabilities reflected in the income statement | **15** | (357) | **–** | – |
| Insurance contract contributions recognised in policy liabilities | **573** | 431 | **–** | – |
| Claims expense recognised in policy liabilities | **(801)** | (805) | **–** | – |
| **Gross insurance contract policy liabilities at the end of the financial year** | **1,911** | 2,124 | **–** | – |
| **Total gross policy liabilities** | **5,583** | 5,547 | **–** | – |
| Current | **385** | 368 | **–** | – |
| Non-current | **5,198** | 5,179 | **–** | – |
| **Total life insurance policy liabilities** | **5,583** | 5,547 | **–** | – |
| **Unvested policyowner benefits** | | | | |
| Unvested policyowner benefits at the beginning of the financial year | **397** | 314 | **–** | – |
| Foreign currency exchange movement | **1** | – | **–** | – |
| Increase in unvested policyowner benefits | **6** | 83 | **–** | – |
| **Unvested policyowner benefits at the end of the financial year** | **404** | 397 | **–** | – |
| **Liabilities ceded under reinsurance** | | | | |
| Liabilities ceded under reinsurance at the beginning of the financial year | **311** | 253 | **–** | – |
| Foreign currency exchange movement | **(2)** | – | **–** | – |
| Movement in reinsurance assets reflected in the income statement | **18** | 58 | **–** | – |
| **Liabilities ceded under reinsurance at the end of the financial year** | **327** | 311 | **–** | – |
| Current | **20** | (3) | **–** | – |
| Non-current | **307** | 314 | **–** | – |
| **Liabilities ceded under reinsurance** | **327** | 311 | **–** | – |

## 30. Managed funds units on issue

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Managed funds units on issue – current** | **437** | 506 | **–** | – |
| **Fair values of managed funds units on issue classified by the fair value hierarchy** | | | | |
| Level 1 | **213** | | **–** | |
| Level 2 | **209** | | **–** | |
| Level 3 | **15** | | **–** | |
| **Total managed funds units on issue measured at fair value** | **437** | | **–** | |

Managed funds units on issue represent unitholder funds in controlled managed funds held by parties other than the Group and are presented as a liability in accordance with AASB 132 *Financial Instruments: Presentation*.

The Group classifies fair values of financial instruments using the fair value hierarchy in order to reflect the significance of observable inputs used in their estimation. A description of the fair value hierarchy can be found in note 41(a). The Group has elected not to provide comparative information for the fair value hierarchy disclosures in accordance with the transitional relief as permitted by AASB 7 *Financial Instruments: Disclosures*.

Managed funds units on issue classified as Level 3 in the fair value hierarchy for the Group at 30 June 2010 total $15 million (2009: $16 million). During the financial year ended 30 June 2010, a $1 million gain was included in the consolidated income statement as outside beneficial interests in managed funds.

The Group believes that its fair value estimates are appropriate. The Level 3 managed funds on issue consists of a property trust with the significant input being the valuation of property. Changing one or more of the inputs to reasonably possible alternative assumptions would not result in material changes to the income statement in respect of managed funds units on issue classified as Level 3 in the fair value hierarchy.

There were no significant transfers between levels in the fair value hierarchy during the year.

## 31. Securitisation liabilities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Secured** | | | | |
| Class A1 Notes AUD | **2,365** | 2,342 | **–** | – |
| Class A1 Notes EUR | **52** | 85 | **–** | – |
| Class A1 Notes USD | **–** | 64 | **–** | – |
| Class A2 Notes AUD | **523** | – | **–** | – |
| Class A2 Notes EUR | **826** | 1,343 | **–** | – |
| Class A2 Notes USD | **44** | 57 | **–** | – |
| Class A3 Notes AUD | **727** | 142 | **–** | – |
| Class B Notes AUD | **173** | 222 | **–** | – |
| Short-term Warehouse Securities AUD | **–** | 1,456 | **–** | – |
| **Total securitisation liabilities** | **4,710** | 5,711 | **–** | – |
| Current | **1,261** | 2,556 | **–** | – |
| Non-current | **3,449** | 3,155 | **–** | – |
| **Total securitisation liabilities** | **4,710** | 5,711 | **–** | – |

## 32. Debt issues

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Unsecured** | | | | |
| Offshore borrowings | **12,011** | 11,477 | **12,020** | 11,487 |
| Domestic borrowings | **4,748** | 4,184 | **5,033** | 4,523 |
| **Total debt issues** | **16,759** | 15,661 | **17,053** | 16,010 |
| Current | **7,284** | 1,847 | **7,284** | 1,847 |
| Non-current | **9,475** | 13,814 | **9,769** | 14,163 |
| **Total debt issues** | **16,759** | 15,661 | **17,053** | 16,010 |

## 33. Subordinated notes

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Fixed rate notes due June 2013 (USD) | **124** | 127 | **124** | 127 |
| Floating rate notes due September 2015 with first call September 2010 | **220** | 220 | **220** | 220 |
| Fixed rate notes due June 2016 with first call June 2011 | **203** | 208 | **203** | 208 |
| Floating rate notes due June 2016 with first call June 2011 | **100** | 100 | **100** | 100 |
| Floating rate notes due October 2016 with first call October 2011 (EUR) | **188** | 220 | **188** | 220 |
| Fixed rate notes due October 2017 with first call October 2012 (GBP) | **486** | 537 | **486** | 537 |
| Fixed rate notes due September 2024 with first call September 2014 | **131** | 130 | **–** | – |
| Floating rate notes due September 2024 with first call September 2014 | **52** | 53 | **–** | – |
| Fixed rate notes due September 2025 with first call September 2015 | **118** | 118 | **–** | – |
| Floating rate notes due September 2025 with first call September 2015 | **77** | 81 | **–** | – |
| Fixed rate notes due October 2026 with first call October 2016 | **99** | 98 | **–** | – |
| Fixed rate notes due June 2027 with first call June 2017 (GBP) | **213** | 249 | **–** | – |
| Perpetual floating rate notes | **171** | 171 | **171** | 171 |
| **Total subordinated notes** | **2,182** | 2,312 | **1,492** | 1,583 |
| Current | **220** | – | **220** | – |
| Non-current | **1,962** | 2,312 | **1,272** | 1,583 |
| **Total subordinated notes** | **2,182** | 2,312 | **1,492** | 1,583 |

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

In line with APRA's capital adequacy measurement rules, perpetual floating rate notes are included in upper Tier 2 capital. The term subordinated notes are included in lower Tier 2 capital and the value recognised as regulatory capital is reduced by 20% for each of their last five years to maturity.

## 34. Preference shares

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| 1,440,628 reset preference shares each fully paid (2009: 1,440,628) | **144** | 144 | **144** | 144 |
| 7,350,000 convertible preference shares each fully paid (2009: 7,350,000) | **725** | 721 | **725** | 721 |
| **Total preference shares at amortised cost** | **869** | 865 | **869** | 865 |

### Reset preference shares

The Company's reset preference shares (RPS) are perpetual, paying fixed non-cumulative dividends with certain terms periodically reset. The first reset date occurred on 14 September 2006, with $106 million worth of shares being converted into ordinary shares. The next reset date is 14 September 2011. Holders have an option on each reset date to request the preference shares be exchanged. Once a holder exchange request is received, the Company has the option to elect to exchange for cash or ordinary shares of approximately equal value to the original issue price of the preference shares, or to have the preference shares acquired by a third party with proceeds delivered to the holder.

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

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

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

### Convertible preference shares

The Company's convertible preference shares (CPS) are fully paid preference shares which will mandatorily convert into a variable number of ordinary shares on 14 June 2013 (subject to certain requirements being met). In addition, the Company must convert the CPS into a variable number of ordinary shares or redeem the CPS for cash within 35 days of the occurrence of an Acquisition Event (subject to certain conditions being met). Holders of the CPS are entitled to receive floating rate quarterly non-cumulative preferred dividends calculated by the formula set out in the Prospectus dated 14 May 2008 and which are subject to payment tests also documented in the Prospectus. Such dividends are at the discretion of the directors and only payable if the restrictions as set out in the Prospectus are complied with. The dividends are expected to be fully franked.

Holders of CPS are entitled to vote in limited circumstances in which case shareholders will have the same rights as to the manner of attendance and to voting as ordinary shareholders with one vote per preference share. The limited circumstances are set out in the Prospectus.

In the event of winding-up of the Company, convertible preference shareholders rank ahead of ordinary shareholders, equal with RPS and any other equal ranking instruments, but behind all depositors, creditors and subordinated noteholders.

## 35. Capital and reserves

The statements of changes in equity present capital and reserves balances. A description of the nature and purpose of each category of capital and reserves are detailed below.

### 35(a) Share capital

| | Company | | | |
|---|---|---|---|---|
| | Ordinary shares | | Non-participating shares | |
| | **2010 Number** | 2009 Number | **2010 Number** | 2009 Number |
| Balance at the beginning of the financial year | **1,257,377,460** | 955,528,252 | **–** | 2,000 |
| Issued under the Dividend Reinvestment Plan | **24,013,064** | 32,831,266 | **–** | – |
| Issued under an Underwriting Agreement | **–** | 13,539,048 | **–** | – |
| Conversion of non-participating shares to ordinary shares | **–** | 2,000 | **–** | (2,000) |
| Issued to existing institutional and other major shareholders | **–** | 109,784,623 | **–** | – |
| Issued under entitlements offer | **–** | 145,692,271 | **–** | – |
| **Balance at the end of the financial year** | **1,281,390,524** | 1,257,377,460 | **–** | – |

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

#### Ordinary shares

In March 2009 the Company conducted an accelerated, non-renounceable institutional entitlements offer and simultaneous institutional placement; and a non-renounceable retail entitlement offer. Shareholders were entitled to subscribe for one new share for every five existing ordinary shares at an issue price of $4.50. All new shares issued ranked equally with the existing shares on issue, except that they were not eligible for the interim dividend declared in respect of the period ended 31 December 2008.

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

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

#### Dividend Reinvestment Plan

On 1 October 2009, 13,519,822 (2009: 34,701,430 includes ordinary shares issued pursuant to an Underwriting Agreement) ordinary shares were issued at $7.92 (2009: $9.61) under the Dividend Reinvestment Plan in respect of the 30 June 2009 (2009: 30 June 2008) final dividend.

On 1 April 2010, 10,493,242 (2009: 11,668,884) ordinary shares were issued at $8.33 (2009: $5.91) under the Dividend Reinvestment Plan in respect of the 30 June 2010 (2009: 30 June 2009) interim dividend.

#### Share-based payments

Share-based payments represent the fair value of share-based remuneration provided to employees.

#### Treasury shares

Treasury shares represent the value of shares held by subsidiaries that the Group is required to off-set against share capital and to include in the consolidated financial statements. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

### 35(b) Reserves

#### General reserves for credit losses

The general reserve for credit losses comprises transfers from retained profits and represents the difference between the Group's specific and collective provisions for impairment and the estimate of credit losses across the credit cycle based on guidance provided by APRA.

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions where the hedged item has not yet affected profit or loss.

#### Assets available-for-sale reserve

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

#### Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the Group.

## 35(c) Capital management

### Group capital

The Group's capital management strategy is to optimise shareholder value by managing the level, mix and use of capital resources. The main objectives are to support the 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 Group's ability to continue as a going concern. The Group's capital policy is to hold all surplus capital in the Bank as it is the holding company of the Group.

In managing the Group's capital, both internal and external measures of capital are used. Externally, the Group is subject to minimum prudential capital requirements imposed by APRA. Revised Prudential Standards reflecting the Basel II Accord principles took effect in Australia from 1 January 2008. Prior to 1 January 2008, the Group reported capital adequacy under the prudential requirements derived from the Basel I framework.

Capital requirements are measured at three levels of consolidation within the Group. The Bank and certain controlled banking and corporate services entities which meet the APRA definition of extended licensed entities (ELE) are reported as Level 1. In addition, each of the licensed general insurers and licensed life insurers is a Level 1 reporting entity. The Level 2 Banking group consists of the Bank, its controlled banking and corporate services entities and some other entities within the statutory banking group which are not included in the ELE. The Level 2 General Insurance groups currently consist of the domestic General Insurance group and the New Zealand General Insurance group. Level 2 reporting for the General Insurance groups was implemented in March 2009. Level 3 consists of the consolidated group, including Banking, General Insurance and Life groups.

The Group's statutory capital consists of share capital, reserves and retained profits. Regulatory capital differs from statutory capital due to the inclusion of some liabilities such as preference shares and subordinated notes, and the deduction of intangible assets such as goodwill and software assets.

The Group has three main business lines, each with different regulatory requirements for capital. The structure of the Group has the Bank as the holding company with subsidiaries operating in the General Insurance, Life and Other business lines.

There were no changes in the Group's approach to capital management during the financial year. Capital policy is reviewed regularly and where appropriate, adjustments are made to internal capital targets in light of changes in economic conditions and risk characteristics of the Group's activities.

The Group satisfied all externally imposed capital requirements which it is subject to during the current and prior financial years.

## 35. Capital and reserves (continued)

### 35(c) Capital management (continued)

**Group capital (continued)**

The following table (including consolidation entries) demonstrates the distribution of regulatory capital across the three main business lines.

| | as at 30 June 2010 | | | | |
|---|---|---|---|---|---|
| | General Insurance[4] $m | Banking[4] $m | Life $m | Consolidation $m | Total $m |
| **Tier 1** | | | | | |
| Ordinary share capital | – | 12,730 | – | – | 12,730 |
| Subsidiary share capital (eliminated upon consolidation) | 8,321 | – | 2,225 | (10,546) | – |
| Reserves | 10 | 53 | 253 | (257) | 59 |
| Retained profits[1] | (81) | 886 | 23 | 186 | 1,014 |
| Preference shares | – | 879 | – | – | 879 |
| Insurance liabilities in excess of liability valuation | 424 | – | – | – | 424 |
| Less goodwill and brands | (5,607) | (7,809) | (913) | 7,795 | (6,534) |
| Less software assets | (9) | (61) | (23) | – | (93) |
| Less deductible capitalised expenses | – | (95) | – | – | (95) |
| Less deferred tax asset | – | (191) | – | 141 | (50) |
| Less other required deductions[2] | (16) | – | – | – | (16) |
| Less Tier 1 deductions for investments in subsidiaries, capital support | – | (1,428) | – | 1,428 | – |
| **Total Tier 1 capital** | 3,042 | 4,964 | 1,565 | (1,253) | 8,318 |
| **Tier 2** | | | | | |
| APRA general reserve for credit losses | – | 346 | – | – | 346 |
| Asset revaluation reserves | – | 7 | – | – | 7 |
| Subordinated notes | 778 | 1,628 | – | – | 2,406 |
| Less Tier 2 deductions for investments in subsidiaries, capital support | – | (1,428) | – | 1,428 | – |
| **Total Tier 2 capital** | 778 | 553 | – | 1,428 | 2,759 |
| **Total capital base** | 3,820 | 5,517 | 1,565 | 175 | 11,077 |
| **Represented by:** | | | | | |
| Capital in regulated entities | 3,782 | 5,478 | 1,654 | – | 10,914 |
| Capital in unregulated entities | 38 | 39 | (89) | 175 | 163 |
| | 3,820 | 5,517 | 1,565 | 175 | 11,077 |
| **Target capital base**[3] | 3,395 | 4,828 | 1,554 | – | 9,777 |

1 For Banking and domestic General Insurance, this represents the business line retained profits determined by using the APRA calculation. New Zealand General Insurance retained profits are on a statutory basis. APRA requires accrual of expected dividends in the Bank and General Insurance current year profits. To allow for consistency across the Group, expected dividends are also included for Life.

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

3 APRA requires regulated entities to have internal capital targets. For the Banking business the capital target is a capital adequacy ratio percentage. The target capital for the General Insurance business is based on a multiple of the various minimum capital requirement (MCR) components. The Life business capital target is an amalgamation of target capital for statutory funds, minimum capital required for shareholder funds and net tangible asset requirements for investment management entities.

4 These numbers are for consolidated segments. They do not align with the regulatory reporting groups used in the Banking capital adequacy and General Insurance minimum capital requirements calculations.

| | at 30 June 2009 | | | | | |
|---|---|---|---|---|---|---|
| | General Insurance[4] $m | Banking $m | Life $m | Other $m | Consolidation $m | Total $m |
| **Tier 1** | | | | | | |
| Ordinary share capital | – | 12,584 | – | – | – | 12,584 |
| Subsidiary share capital (eliminated upon consolidation) | 3,052 | – | 718 | 17 | (3,787) | – |
| Reserves | – | – | – | – | – | – |
| Retained profits[1] | 355 | 859 | 785 | 69 | (1,587) | 481 |
| Preference shares | – | 879 | – | – | – | 879 |
| Insurance liabilities in excess of liability valuation | 415 | – | – | – | – | 415 |
| Less goodwill and brands | (1,181) | (7,818) | – | – | 2,314 | (6,685) |
| Less software assets | (9) | (66) | – | – | (79) | (154) |
| Less deductible capitalised expenses | – | (118) | – | – | – | (118) |
| Less deferred tax asset | (184) | (186) | – | – | 227 | (143) |
| Less other required deductions[2] | (2) | (1) | – | – | – | (3) |
| Less Tier 1 deductions for investments in subsidiaries, capital support | – | (1,424) | – | – | 1,424 | – |
| **Total Tier 1 capital** | 2,446 | 4,709 | 1,503 | 86 | (1,488) | 7,256 |
| **Tier 2** | | | | | | |
| APRA general reserve for credit losses | – | 392 | – | – | – | 392 |
| Asset revaluation reserves | – | 3 | – | – | – | 3 |
| Subordinated notes | 784 | 1,636 | – | – | (1) | 2,419 |
| Less Tier 2 deductions for investments in subsidiaries, capital support | – | (1,424) | – | – | 1,424 | – |
| **Total Tier 2 capital** | 784 | 607 | – | – | 1,423 | 2,814 |
| **Total capital base** | 3,230 | 5,316 | 1,503 | 86 | (65) | 10,070 |
| **Target capital base[3]** | 2,994 | 4,995 | 1,399 | 17 | – | 9,405 |

1 For Banking and domestic General Insurance, this represents the business line retained profits determined by using the APRA calculation. New Zealand General Insurance retained profits are on a statutory basis. APRA requires accrual of expected dividends in the Bank and General Insurance current year profits. To allow for consistency across the Group, expected dividends are also included for Life.

2 Other required deductions includes surpluses in defined benefit funds and internal funding transactions of a capital nature.

3 APRA requires regulated entities to have internal capital targets. For the Banking business the capital target is a capital adequacy ratio percentage. The target capital for the General Insurance business is based on a multiple of the various minimum capital requirement (MCR) components. The Life business capital target is an amalgamation of target capital for statutory funds, minimum capital required for shareholder funds and net tangible asset requirements for investment management entities. The target capital for entities within the Other businesses are based upon their actual capital base.

4 The General Insurance group includes only those licensed entities regulated by APRA plus the New Zealand General Insurance operations. Other entities within the statutory General Insurance reporting group are included in the Other businesses in this table.

Internally, an Economic Capital framework has been developed and is used as a tool to analyse the level of risk and measure relative performance.

## 35. Capital and reserves (continued)

### 35(c) Capital management (continued)

**Banking capital adequacy**

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

Regulatory capital is divided into Tier 1 and Tier 2. Tier 1 comprises the highest quality components of capital and can be split into Fundamental Tier 1 capital and Residual Tier 1 capital. Fundamental Tier 1 capital is the strongest form of capital such as ordinary share capital, reserves and retained profits. Residual Tier 1 capital is divided into Non-innovative Residual Tier 1 capital and Innovative Residual Tier 1 capital. Non-innovative Residual Tier 1 capital comprises instruments such as perpetual non-cumulative preference shares and Innovative Residual Tier 1 capital consists of all other Residual Tier 1 capital instruments that can include features such as fixed terms, and step-ups in dividends or interest.

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

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

The Bank is required to deduct investments in entities engaged in general insurance and life insurance from its capital base. Goodwill relating to these investments and other intangible assets are required to be deducted from Tier 1 capital.

The measurement of risk-weighted exposures is based on:

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

For calculation of minimum prudential capital requirements, the Bank has adopted the Standardised Approaches. The regulatory capital adequacy ratio of the Banking group at the end of the financial year was 14.7% (2009: 12.8%). The consolidated Banking Level 2 capital adequacy position is set out in note 38(b).

**General Insurance minimum capital ratio**

All General Insurance entities that conduct insurance businesses in Australia are authorised by APRA and subject to prudential standards which set out the basis for calculating their minimum capital requirement (MCR). The MCR is the minimum level of capital that the regulator deems must be held to meet policyowner obligations. An insurer's capital base is expected to be adequate for its size, business mix, complexity and the risk profile of its business and therefore the MCR applies a risk-based approach to capital adequacy. Licensed General Insurance entities within the Group use the standardised framework for calculating the MCR in accordance with the relevant prudential standards.

For capital adequacy purposes, a general insurer's capital base is the sum of its Tier 1 and Tier 2 capital after all specified deductions and adjustments. Goodwill and other intangible assets are required to be deducted from Tier 1 capital. Any provisions (net of taxation impact) for outstanding claims and insurance risk in excess of the amount required to provide a level of sufficiency at 75% are classified as capital. The Group applies a risk margin to the central estimate of net outstanding claims to achieve a 90% (2009: 90%) confidence level. General insurers are required to hold regulatory capital in excess of their MCR.

The MCR for General Insurance is calculated by assessing the risks inherent in the business, which comprise:

- the risk that the liability for outstanding claims is not sufficient to meet the obligations to policyowners arising from losses incurred up to the reporting date (outstanding claims risk)
- the risk that the unearned premium liability is insufficient to meet the obligations to policyowners arising from losses incurred after the reporting date on existing policies (premium liabilities risk)
- the risk that the value of assets has diminished (investment risk); and
- the risk of a catastrophe giving rise to major claims losses up to the retention amount under existing reinsurance arrangements (catastrophe risk).

These risks are quantified to determine the minimum capital required under the Prudential Standards. This requirement is compared with the regulatory capital held in the General Insurance entities.

The regulatory capital position of the General Insurance groups at the end of the financial year was:

| | **2010** | 2009 |
|---|---|---|
| **General Insurance MCR** | | |
| Domestic General Insurance group | **1.83** | 1.60 |
| General Insurance group | **1.89** | 1.67 |

In the absence of regulatory requirements, the Group determines the minimum capital requirements for its New Zealand General Insurance business according to the business and operational needs.

The General Insurance minimum capital requirement is set out in note 39(e).

### Life capital requirements

The Group's Life Insurance entities are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the policy liability, investments and reinsurance assets held on the statement of financial position. The Life Insurance entities hold a target surplus of capital in excess of the prescribed minimum. Where capital falls below this target surplus, the Life Insurance entities undertake 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 asset shock scenarios.

In the absence of regulatory requirements, the Group determines the minimum capital requirements for its New Zealand Life Insurance business according to the business and operational needs.

Fund managers in Australia are subject to responsible entity regulation by the Australian Securities and Investments Commission (ASIC). The regulatory capital requirements vary depending on the type of Australian Financial Services Licence held, but a requirement of at least $5 million of net tangible assets applies for each licensed entity.

The solvency requirements and the ratios in respect of those requirements for the Life Insurance entities are set out in note 40(f).

## 36. Dividends

| | Company | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Cents per share** | **$m** | Cents per share | $m |
| **Ordinary shares** | | | | |
| Final 2009 dividend (franked) paid 1 October 2009 (2009: Final 2008 dividend (franked) paid 1 October 2008) | **20** | **252** | 55 | 526 |
| Interim 2010 dividend (franked) paid 1 April 2010 (2009: Interim 2009 dividend (franked) paid 1 April 2009) | **15** | **191** | 20 | 203 |
| **Total dividends on ordinary shares** | | **443** | | 729 |
| **Reset preference shares recognised as liability** | | | | |
| Half-yearly dividend (franked) paid 14 September 2009 (2009: Half-yearly dividend (franked) paid 15 September 2008), recognised in interest expense | **255** | **4** | 255 | 4 |
| Half-yearly dividend (franked) paid 15 March 2010 (2009: Half-yearly dividend (franked) paid 16 March 2009), recognised in interest expense | **251** | **4** | 251 | 4 |
| **Total dividends on reset preference shares** | | **8** | | 8 |
| **Convertible preference shares recognised as liability** | | | | |
| Quarterly dividend (franked) paid 14 September 2009 (2009: Quarterly dividend (franked) paid 15 September 2008), recognised in interest expense | **113** | **8** | 202 | 15 |
| Quarterly dividend (franked) paid 14 December 2009 (2009: Quarterly dividend (franked) paid 15 December 2008), recognised in interest expense | **116** | **9** | 183 | 13 |
| Quarterly dividend (franked) paid 15 March 2010 (2009: Quarterly dividend (franked) paid 16 March 2009), recognised in interest expense | **130** | **10** | 135 | 10 |
| Quarterly dividend (franked) paid 15 June 2010 (2009: Quarterly dividend (franked) paid 15 June 2009), recognised in interest expense | **135** | **10** | 109 | 8 |
| **Total dividends on convertible preference shares** | | **37** | | 46 |
| **Dividends not recognised in the statement of financial position** | | | | |
| In addition to the above dividends, since financial year end the directors have proposed the following: | | | | |
| Final 2010 dividend (franked) expected to be paid on 1 October 2010 (2009: 1 October 2009) out of retained profits at 30 June 2010, but not recognised as a liability in the statement of financial position | **20** | **256** | 20 | 251 |
| **Total dividends not recognised in the statement of financial position** | | **256** | | 251 |

Franked dividends proposed, declared or paid during the year were fully franked at the tax rate of 30% (2009: 30%).

The amount of dividends paid, disclosed in the consolidated statement of changes in equity, reflects dividends paid by the Company adjusted for the elimination of dividends received by subsidiaries.

| | Company | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Franking credits available** | | |
| The franked portions of the dividends recommended after 30 June 2010 (2009: 30 June 2009) will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the financial year ending 30 June 2011 (2009: 30 June 2010). | | |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%) | **637** | 631 |

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

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

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

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

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance date but not recognised as a liability is to reduce it by $111 million (2009: $109 million). In accordance with the tax consolidation legislation, the Company as the head company of the ultimate single tax consolidated group has assumed the franking credits of the Group.

## 37. Risk management

A structured risk management framework is in place throughout 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, 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 each business unit 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 and the Board Risk Committee. Chief Risk Officers, with formal lines of accountability to both their Line of Business CEO and the Group Chief Risk Officer, have been appointed for the Bank, General Insurance and Life Insurance businesses 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 in Banking through lending and trading counterparties. In General Insurance and Life, 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. The most significant market risk arises in Banking from exposures to interest rates and foreign exchange rates in trading and non-trading activities. The most significant market risk in General Insurance and Life 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 earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term. Balance sheet risk arises at a Group level from the structure and characteristics of assets and liabilities and in the mismatch of their repricing dates.
- **Liquidity risk** – the risk that the Group will be unable to service its cash flow obligations today or in the future. In Banking, liquidity risk arises from mismatches in the cash flows of financial transactions or the inability of financial markets to absorb the transactions of the Bank. In General Insurance and Life, 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 in General Insurance and Life 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 Group may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and good practice standards.
- **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 Group'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. A major piece of work was undertaken to simplify and better align the suite of group policies with the risk management framework.

Further details of the risk management framework as it applies to financial instruments related to Banking activities, General Insurance activities and Life activities are contained in notes 38(c), 39(f) and 40(g) respectively.

## 38. Specific disclosures – Banking

### 38(a) Contribution to profit from banking activities

| | Consolidated Banking | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Net interest income**[1] | | |
| Interest revenue | **4,023** | 4,702 |
| Interest expense | **(3,095)** | (3,585) |
| | **928** | 1,117 |
| **Net banking fee and commission income** | | |
| Fee and commission revenue | **234** | 266 |
| Fee and commission expense | **(79)** | (98) |
| | **155** | 168 |
| **Other operating revenue** | | |
| Net profits on derivative and other financial instruments[2] | **17** | 76 |
| Other income | **3** | 15 |
| | **20** | 91 |
| Non-interest income | **175** | 259 |
| **Total income from Banking activities** | **1,103** | 1,376 |
| **Operating expenses** | | |
| Staff expenses | **(316)** | (307) |
| Equipment and occupancy expenses | **(95)** | (93) |
| Hardware, software and data line expenses | **(33)** | (39) |
| Advertising and promotion | **(30)** | (27) |
| Office supplies, postage and printing | **(24)** | (23) |
| Other | **(48)** | (60) |
| | **(546)** | (549) |
| **Contribution to profit from Banking activities before impairment losses on loans and advances and tax** | **557** | 827 |
| Impairment losses on loans and advances | **(479)** | (710) |
| **Contribution to profit before tax from Banking activities** | **78** | 117 |

1 The components of interest income and expense that relate to financial assets or liabilities carried at fair value through profit and loss are those related to trading assets and derivatives of $245 million (2009: $235 million) and liabilities designated at fair value through profit and loss of $21 million (2009: $124 million) respectively.

2 Included within 'net profits on derivative and other financial instruments' for the financial year ended 30 June 2009 is a $39 million gain from the buy back of subordinated notes.

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

## 38. Specific disclosures – Banking (continued)

### 38(b) Banking capital adequacy

The consolidated Banking capital adequacy position is set out below:

| | Consolidated Banking | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Tier 1** | | |
| **Fundamental Tier 1** | | |
| Ordinary share capital | **12,783** | 12,584 |
| Retained profits | **847** | 859 |
| | **13,630** | 13,443 |
| **Residual Tier 1** | | |
| Reset preference shares | **144** | 144 |
| Convertible preference shares | **735** | 735 |
| | **879** | 879 |
| **Tier 1 deductions** | | |
| Goodwill and other intangibles arising on acquisition | **(7,809)** | (7,818) |
| Software assets | **(61)** | (66) |
| Other intangible assets | **(95)** | (118) |
| Deferred tax asset | **(191)** | (186) |
| Other Tier 1 deductions | **–** | (1) |
| Tier 1 deductions for investments in subsidiaries, capital support | **(1,428)** | (1,424) |
| | **(9,584)** | (9,613) |
| **Total Tier 1 capital** | **4,925** | 4,709 |
| **Tier 2** | | |
| **Upper Tier 2** | | |
| APRA general reserve for credit losses | **346** | 392 |
| Perpetual subordinated notes | **170** | 170 |
| Asset revaluation reserves | **7** | 3 |
| | **523** | 565 |
| **Lower Tier 2** | | |
| Subordinated notes | **1,458** | 1,466 |
| | **1,458** | 1,466 |
| **Tier 2 deductions** | | |
| Tier 2 deductions for investments in subsidiaries, capital support | **(1,428)** | (1,424) |
| **Total Tier 2 capital** | **553** | 607 |
| **Capital base** | **5,478** | 5,316 |
| **Total assessed risk** | **37,234** | 41,626 |
| **Risk-weighted capital ratio** | **14.71%** | 12.77% |

## Risk-weighted assets

| | Consolidated Banking | | | |
|---|---|---|---|---|
| | Carrying value | | Risk-weighted balance | |
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Assets** | | | | |
| Cash items | **210** | 210 | **21** | 23 |
| Claims on Australian and foreign governments | **691** | 1,169 | **3** | 3 |
| Claims on central banks, international banking agencies, regional development banks, ADIs and overseas banks | **4,031** | 3,794 | **806** | 759 |
| Claims secured against eligible residential mortgages | **26,594** | 24,664 | **10,674** | 9,896 |
| Past due claims | **2,712** | 2,113 | **3,124** | 2,213 |
| Other assets and claims | **18,118** | 23,524 | **17,521** | 23,152 |
| **Total banking assets** | **52,356** | 55,474 | **32,149** | 36,046 |
| | Notional value | Credit equivalent | Risk-weighted balance | |
| | **2010 $m** | **2010 $m** | **2010 $m** | 2009 $m |
| **Off-balance sheet positions** | | | | |
| Guarantees entered into in the normal course of business | **287** | **184** | **165** | 190 |
| Commitments to provide loans and advances | **6,046** | **1,457** | **956** | 1,576 |
| Capital commitments | **23** | **23** | **23** | 45 |
| Foreign exchange contracts | **18,359** | **589** | **139** | 154 |
| Interest rate contracts | **72,841** | **297** | **136** | 237 |
| **Total off-balance sheet positions** | **97,556** | **2,550** | **1,419** | 2,202 |
| **Market risk capital charge** | | | **572** | 499 |
| **Operational risk capital charge** | | | **3,094** | 2,879 |
| **Total off-balance sheet positions** | | | **1,419** | 2,202 |
| **Total risk-weighted assets** | | | **32,149** | 36,046 |
| **Total assessed risk** | | | **37,234** | 41,626 |
| | | | **%** | % |
| **Risk-weighted capital ratios** | | | | |
| Tier 1 | | | **13.23** | 11.31 |
| Tier 2 | | | **1.48** | 1.46 |
| **Total risk-weighted capital ratio** | | | **14.71** | 12.77 |

## 38. Specific disclosures – Banking (continued)

### 38(c) Banking risk management

Banking has a structured risk management framework in place for key risks including credit, market (traded and non-traded) and liquidity risks. The framework includes a Risk Management Strategy which describes the systems in place to manage the major areas of risk facing Banking.

**Credit risk**

Credit risk is managed on a structured basis combining a well-defined framework that lays out the fundamental risk management principles and guidelines, with approval decisions being taken within credit approval authorities delegated by the Board.

The Board of Directors is the highest credit authority. Under delegation from the Board, the Board Risk Committee determines the credit risk appetite, sets principles for the management of credit risk and decisions individual credit assessments where the exposure exceeds the level of authority delegated to management.

The acceptance and management of credit risk is performed independently as is setting and maintaining of detailed credit policies and standards. The Board has assigned responsibility and management of credit risk to the Bank Credit Risk Committee and the Banking Chief Risk Officer to independently manage credit functions to monitor trends impacting the credit quality of lending portfolios, developing and maintaining risk grading and automated risk assessment systems and managing troublesome and impaired assets.

Credit risk involves a wide spectrum of customers ranging from individuals to large institutions and as such credit risk management is divided into two distinct categories: a statistically managed portfolio and risk-graded portfolio.

The statistically managed portfolio covers consumer business (personal loans and housing loans) and automated credit scoring is widely used to determine customer creditworthiness. Credit scoring is embedded within the Bank's end to end automated workflow system that also enforces credit policies and certain business rules. These exposures are generally not reviewed individually unless arrears occur when all collections and recovery actions are managed by a centralised team.

The risk-graded portfolio includes business and corporate exposures. Within this portfolio, exposures are individually assessed and an internal risk grade assigned depending on discrete analysis of each customer or group of related customers' risk profile. Exposures within this portfolio are generally subject to annual (or more frequent) review, including a reassessment of the assigned internal risk grade. In the event of default, collections and recovery activity is managed within a well-defined structure. This process involves initial follow-up by the client manager including regular performance monitoring, reporting and, if required, transfer to a central intensive management or Credit Recovery Unit.

A structure of industry concentration limits has been developed to monitor exposure levels within the risk-graded portfolio. These are tactical limits upon which business planning and developmental activity is based but also act as guidelines for portfolio concentration purposes.

A credit inspection process is in place to review the acceptance and management of credit risk in accordance with the approved risk management framework.

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

| | Consolidated Banking | |
|---|---|---|
| | **2010 Number** | 2009 Number |
| 25% and greater | **2** | – |
| 20% to less than 25% | **–** | 5 |
| 15% to less than 20% | **3** | 1 |
| 10% to less than 15% | **–** | 2 |
| 5% to less than 10% | **5** | 2 |

Risk concentrations with respect to the Banking assets excluding investments in subsidiaries are shown below, as well as those balances that are considered impaired and past due.

Impaired loans are those for which the Bank has determined that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. This includes loans that are individually impaired and those forming the group of homogeneous assets in respect of which a collective impairment provision has been calculated. In relation to loans for business purposes, all relevant circumstances surrounding the customer are considered before a loan is considered impaired.

An asset is considered past due when any payment under the strict contractual terms has been missed or received late. The amount included as past due is the entire contractual balance, not just the overdue portion.

Details of credit risk amounts for credit commitments are set out in note 44 and for derivative financial instruments in note 42.

| | Consolidated Banking | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Receivables due from other banks $m | Trading securities $m | Investment securities $m | Loans, advances and other receivables $m | Credit commit-ments $m | Derivative instruments $m | Total risk $m | Individually provisioned impaired assets $m | Past due $m | Total not past due or impaired $m |
| **2010** | | | | | | | | | | |
| Agribusiness | **–** | **–** | **–** | **3,249** | **18** | **–** | **3,267** | **205** | **33** | **3,029** |
| Construction and development | **–** | **–** | **–** | **4,356** | **127** | **–** | **4,483** | **1,304** | **144** | **3,035** |
| Financial services | **232** | **8,233** | **3,118** | **2,663** | **163** | **886** | **15,295** | **–** | **–** | **15,295** |
| Hospitality | **–** | **–** | **–** | **1,151** | **–** | **–** | **1,151** | **89** | **4** | **1,058** |
| Manufacturing | **–** | **–** | **–** | **711** | **–** | **–** | **711** | **13** | **14** | **684** |
| Professional services | **–** | **–** | **–** | **440** | **–** | **–** | **440** | **11** | **6** | **423** |
| Property investment | **–** | **–** | **–** | **6,279** | **–** | **–** | **6,279** | **410** | **80** | **5,789** |
| Real estate – Mortgage | **–** | **–** | **–** | **29,311** | **1,116** | **–** | **30,427** | **19** | **1,338** | **29,070** |
| Personal | **–** | **–** | **–** | **569** | **–** | **–** | **569** | **–** | **39** | **530** |
| Government and public authorities | **–** | **–** | **–** | **6** | **–** | **–** | **6** | **–** | **–** | **6** |
| Other commercial and industrial | **–** | **–** | **–** | **3,083** | **217** | **–** | **3,300** | **71** | **243** | **2,986** |
| **Total gross credit risk** | **232** | **8,233** | **3,118** | **51,818** | **1,641** | **886** | **65,928** | **2,122** | **1,901** | **61,905** |
| Impairment provisions | | | | | | | **(672)** | **(471)** | **(138)** | **(63)** |
| | | | | | | | **65,256** | **1,651** | **1,763** | **61,842** |
| **2009** | | | | | | | | | | |
| Agribusiness | – | – | – | 3,535 | 18 | – | 3,553 | 74 | 49 | 3,430 |
| Construction and development | – | – | – | 6,576 | 266 | – | 6,842 | 804 | 442 | 5,596 |
| Financial services | 118 | 6,694 | 3,932 | 2,078 | 204 | 1,060 | 14,086 | – | 1 | 14,085 |
| Hospitality | – | – | – | 1,742 | – | – | 1,742 | 75 | 80 | 1,587 |
| Manufacturing | – | – | – | 904 | – | – | 904 | 20 | 15 | 869 |
| Professional services | – | – | – | 654 | – | – | 654 | 144 | 15 | 495 |
| Property investment | – | – | – | 7,423 | – | – | 7,423 | 269 | 40 | 7,114 |
| Real estate – Mortgage | – | – | – | 28,464 | 1,055 | – | 29,519 | 31 | 1,148 | 28,340 |
| Personal | – | – | – | 610 | – | – | 610 | – | 25 | 585 |
| Government and public authorities | – | – | – | 9 | – | – | 9 | – | – | 9 |
| Other commercial and industrial | – | – | – | 3,383 | 772 | – | 4,155 | 57 | 121 | 3,977 |
| **Total gross credit risk** | 118 | 6,694 | 3,932 | 55,378 | 2,315 | 1,060 | 69,497 | 1,474 | 1,936 | 66,087 |
| Impairment provisions | | | | | | | (759) | (477) | (207) | (75) |
| | | | | | | | 68,738 | 997 | 1,729 | 66,012 |

## 38. Specific disclosures – Banking (continued)

### 38(c) Banking risk management (continued)

**Credit risk (continued)**

| | Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Receivables due from other banks $m | Trading securities $m | Investment securities $m | Loans, advances and other receivables $m | Credit commit-ments $m | Derivative instruments $m | Total risk $m | Individually provisioned impaired assets $m | Past due $m | Total not past due or impaired $m |
| **2010** | | | | | | | | | | |
| Agribusiness | **–** | **–** | **–** | **3,249** | **18** | **–** | **3,267** | **203** | **30** | **3,034** |
| Construction and development | **–** | **–** | **–** | **4,356** | **124** | **–** | **4,480** | **1,298** | **138** | **3,044** |
| Financial services | **232** | **8,233** | **3,118** | **2,663** | **163** | **886** | **15,295** | **–** | **–** | **15,295** |
| Hospitality | **–** | **–** | **–** | **1,151** | **–** | **–** | **1,151** | **87** | **4** | **1,060** |
| Manufacturing | **–** | **–** | **–** | **711** | **–** | **–** | **711** | **9** | **13** | **689** |
| Professional services | **–** | **–** | **–** | **440** | **–** | **–** | **440** | **4** | **3** | **433** |
| Property investment | **–** | **–** | **–** | **6,279** | **–** | **–** | **6,279** | **409** | **80** | **5,790** |
| Real estate – Mortgage | **–** | **–** | **–** | **29,311** | **1,140** | **–** | **30,451** | **19** | **1,338** | **29,094** |
| Personal | **–** | **–** | **–** | **569** | **–** | **–** | **569** | **–** | **39** | **530** |
| Government and public authorities | **–** | **–** | **–** | **6** | **–** | **–** | **6** | **–** | **–** | **6** |
| Other commercial and industrial | **–** | **–** | **–** | **2,072** | **193** | **–** | **2,265** | **58** | **238** | **1,969** |
| **Total gross credit risk** | **232** | **8,233** | **3,118** | **50,807** | **1,638** | **886** | **64,914** | **2,087** | **1,883** | **60,944** |
| Impairment provisions | | | | | | | **(657)** | **(463)** | **(131)** | **(63)** |
| | | | | | | | **64,257** | **1,624** | **1,752** | **60,881** |
| **2009** | | | | | | | | | | |
| Agribusiness | – | – | – | 3,535 | 18 | – | 3,553 | 73 | 46 | 3,434 |
| Construction and development | – | – | – | 6,576 | 263 | – | 6,839 | 795 | 436 | 5,608 |
| Financial services | 118 | 6,694 | 3,933 | 2,078 | 204 | 1,060 | 14,087 | – | 1 | 14,086 |
| Hospitality | – | – | – | 1,742 | – | – | 1,742 | 74 | 78 | 1,590 |
| Manufacturing | – | – | – | 904 | – | – | 904 | 17 | 13 | 874 |
| Professional services | – | – | – | 654 | – | – | 654 | 138 | 6 | 510 |
| Property investment | – | – | – | 7,423 | – | – | 7,423 | 268 | 39 | 7,116 |
| Real estate – Mortgage | – | – | – | 28,464 | 1,054 | – | 29,518 | 30 | 1,148 | 28,340 |
| Personal | – | – | – | 610 | – | – | 610 | – | 25 | 585 |
| Government and public authorities | – | – | – | 9 | – | – | 9 | – | – | 9 |
| Other commercial and industrial | – | – | – | 1,707 | 772 | – | 2,479 | 45 | 110 | 2,324 |
| **Total gross credit risk** | 118 | 6,694 | 3,933 | 53,702 | 2,311 | 1,060 | 67,818 | 1,440 | 1,902 | 64,476 |
| Impairment provisions | | | | | | | (740) | (472) | (193) | (75) |
| | | | | | | | 67,078 | 968 | 1,709 | 64,401 |

The Group restricts its exposure to credit losses on derivative contracts by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. The ISDA Master Agreement provides a contractual framework for derivatives dealing across a full range of over the counter products. This agreement contractually binds both parties to apply close out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur.

The following table provides information regarding the credit quality of the loans, advances and receivables of the consolidated Banking group and the Company. Impaired assets have been defined above.

| | Consolidated Banking | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Performing loans** | | | | |
| Banking loans | **46,505** | 50,298 | **45,558** | 48,708 |
| Includes amounts with renegotiated terms | **1** | 16 | **1** | 16 |
| Collective allowance for impairment | **(63)** | (75) | **(63)** | (75) |
| | **46,443** | 50,239 | **45,496** | 48,649 |
| **Non-performing loans – impaired** | | | | |
| Individually impaired | **2,122** | 1,474 | **2,087** | 1,440 |
| Specific allowance for impairment | **(471)** | (477) | **(463)** | (472) |
| | **1,651** | 997 | **1,624** | 968 |
| **Non-performing loans – not impaired** | | | | |
| Non-performing – not impaired | **3,190** | 3,609 | **3,161** | 3,538 |
| Collective allowance for impairment | **(138)** | (207) | **(131)** | (193) |
| | **3,052** | 3,402 | **3,030** | 3,345 |
| **Total carrying amount** | **51,146** | 54,638 | **50,150** | 52,962 |

The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty. The independent Credit Recovery Unit provides the Bank Credit Risk Committee with analysis of the carrying value of impaired loans and factors impacting recoverability. Impaired loans are reviewed by the Bank Credit Risk Committee to ensure Board approved methodologies and frameworks have been followed, judgements are appropriate and provisions for impairment are adequate.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. With more than 50% of the Bank's lending consumer in nature and 98% of that secured by residential property the Group's exposures are ultimately linked to factors impacting employment and residential property values. The greatest risk in credit quality is likely to emerge from commercial property markets and further softening in this sector may lead to increased defaults and write-offs. The Group holds collective and specific provisions as outlined in note 3(o).

An estimate of the fair value of collateral and other security enhancements held by the consolidated Banking group against non-performing loans – impaired is $2,001 million (2009: $1,764 million) and held by the Company is $1,989 million (2009: $1,660 million). It has not been practicable to determine the fair value of collateral held as security against non-performing loans – not impaired or performing loans.

## 38. Specific disclosures – Banking (continued)

### 38(c) Banking risk management (continued)

**Credit risk (continued)**

Past due but not impaired loans and advances for the consolidated Banking group and for the Company comprise:

| | Consolidated Banking Past due but not impaired | | | | | | Company Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0-30 days $m | 30-60 days $m | 60-90 days $m | 90-180 days $m | > 180 days $m | Total $m | 0-30 days $m | 30-60 days $m | 60-90 days $m | 90-180 days $m | > 180 days $m | Total $m |
| **2010** | | | | | | | | | | | | |
| **Loans and advances**[1] | | | | | | | | | | | | |
| Retail banking | **860** | **230** | **109** | **111** | **67** | **1,377** | **860** | **230** | **109** | **111** | **67** | **1,377** |
| Business banking | **158** | **142** | **58** | **153** | **13** | **524** | **158** | **133** | **54** | **148** | **13** | **506** |
| | **1,018** | **372** | **167** | **264** | **80** | **1,901** | **1,018** | **363** | **163** | **259** | **80** | **1,883** |
| **2009** | | | | | | | | | | | | |
| **Loans and advances**[1] | | | | | | | | | | | | |
| Retail banking | 720 | 235 | 118 | 106 | 71 | 1,250 | 720 | 235 | 118 | 106 | 71 | 1,250 |
| Business banking[2] | – | 287 | 127 | 272 | – | 686 | – | 268 | 120 | 264 | – | 652 |
| | 720 | 522 | 245 | 378 | 71 | 1,936 | 720 | 503 | 238 | 370 | 71 | 1,902 |

1 The balances of financial assets other than loans, advances and other receivables are all neither past due nor impaired.

2 For business banking assets, internal management reporting only reports past due but not impaired assets greater than 30 days. Business banking assets past due greater than 180 days have been assessed as individually or collectively managed impaired assets.

**Market risk**

Traded interest rate risk and foreign exchange risk is managed using a framework that includes value at risk (VaR) limits, sensitivity limits and stop loss limits. VaR measures potential loss using historically observed market volatility and correlation between different markets. It is a statistical estimate of the potential loss that could be incurred if the Banking group's trading positions were maintained for a pre-defined time period. VaR is predominantly calculated using historical simulation. This method involves multiple revaluations of the trading books using two years of historical pricing shifts. The pricing data is rolled daily so as to have the most recent two year history of prices. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one day holding period for all positions. A 99% confidence level implies that for every 100 days, the loss should not exceed the VaR on 99 of those days.

The VaR model, based on a Monte Carlo simulation methodology, takes into account correlations between different positions and the potential for movements to offset one another within the individual portfolios. The major limitation of this methodology is that the historical market data used to forecast parameters of the model might not be an appropriate proxy of those parameters. Market risk from proprietary trading activities is independently calculated and monitored on a daily basis. Actual results are back tested to check the accuracy of the model and scenario analysis is regularly performed to simulate more extreme market movements. All trading positions are valued daily on a fair value basis and movements recognised in the income statement.

The market risk analysis presented below for the consolidated Banking group applies equally to the Company.

***Interest rate risk***

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

*Non-traded interest rate risk*

The principal objective of non-traded interest rate risk management is to maximise and stabilise net interest income and the present value of the statement of financial position over time providing secure and sustainable net interest income in the long term.

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

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

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

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

| | Company and Consolidated Banking | |
|---|---|---|
| | **2010 %** | 2009 % |
| Exposure at the end of the financial year | **0.32** | 1.45 |
| Average monthly exposure during the financial year | **1.04** | 1.26 |
| High month exposure during the financial year | **2.28** | 2.81 |
| Low month exposure during the financial year | **–** | – |

As a measure of longer-term sensitivity, the Banking group measures the present value sensitivity of its statement of financial position.

The present value sensitivity of the Bank's statement of financial position represents the present value of the net interest income at risk of all known cash flows in the future. A pre-defined adverse interest rate shock is applied to the market curve and the statement of financial position is revalued. The difference between the present value of the statement of financial position using the market curve and the shock curve shows the sensitivity of the present value of the statement of financial position to the pre-defined shock.

The figures in the table below indicate the potential adverse change in present value sensitivity of the Bank's statement of financial position. The change is based on an adverse 1% shock.

| | Company and Consolidated Banking | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| Exposure at the end of the financial year | **22** | 51 |
| Average monthly exposure during the financial year | **27** | 43 |
| High month exposure during the financial year | **60** | 76 |
| Low month exposure during the financial year | **3** | 16 |

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

| | Company and Consolidated Banking | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| Exposure at the end of the financial year | **29** | 47 |
| Average monthly exposure during the financial year | **32** | 39 |
| High month exposure during the financial year | **56** | 64 |
| Low month exposure during the financial year | **10** | 18 |

## 38. Specific disclosures – Banking (continued)

### 38(c) Banking risk management (continued)

**Market risk (continued)**

*Traded interest rate risk*

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

Operational management of traded interest rate risk is delegated to the Trading section of the Bank Treasury. Traded interest rate risk is independently monitored against approved policies on a daily basis by the Market Risk division and reported to the Bank Chief Risk Officer.

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

| | Company and Consolidated Banking | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| VaR at the end of the financial year | **1.48** | 0.91 |
| Average VaR during the financial year | **1.59** | 1.23 |
| Maximum VaR during the financial year | **2.26** | 2.80 |
| Minimum VaR during the financial year | **0.58** | 0.64 |

***Foreign exchange risk***

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

*Non-traded foreign exchange risk*

Non-traded foreign exchange risk arises where investments in non-Australian operations expose current and future earnings to movements in foreign exchange rates. The objective of foreign currency exchange risk management is to minimise the impact on earnings of any such movements. The policy is to fully hedge any such exposure and accordingly minimal exposure to non-traded foreign exchange risk exists. All offshore borrowing facilities arranged as part of the overall funding diversification process (refer 'Concentrations of deposit and borrowing' in Liquidity Risk below) have been economically hedged in respect of their potential foreign exchange risk, through the use of derivative financial instruments (refer note 41(b)).

*Traded foreign exchange risk*

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

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

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

| | Company and Consolidated Banking | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| VaR at the end of the financial year | **0.46** | 0.52 |
| Average VaR during the financial year | **0.32** | 0.29 |
| Maximum VaR during the financial year | **0.85** | 1.55 |
| Minimum VaR during the financial year | **0.08** | 0.03 |

### *Total traded market risk*

Combined risk from both interest rate and foreign exchange trading activities is independently calculated using VaR methodology and monitored against approved limits on a daily basis. The risk calculations, based on the Monte Carlo simulation methodology, take into account correlations between different positions in both the interest rate and foreign exchange trading portfolios, that is, the potential for movements in one portfolio to offset movements in the other portfolio.

The VaR for the Bank's total interest rate and foreign exchange trading activities for the year was as follows:

| | Company and Consolidated Banking | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| VaR at the end of the financial year | **1.53** | 1.24 |
| Average VaR during the financial year | **1.69** | 1.26 |
| Maximum VaR during the financial year | **2.46** | 2.67 |
| Minimum VaR during the financial year | **0.74** | 0.64 |

### Liquidity risk

The Board Risk Committee approves liquidity policies and reviews relevant risk limits. Executive management of liquidity risk is delegated to the Bank Asset and Liability Committee, which reviews risk measures and limits, endorses and monitors the overall Bank funding and liquidity strategy. The primary objective of liquidity policy is to ensure that the Bank has sufficient funds available to meet all its known and potential commitments on a normal, going concern basis and in a name crisis situation. Operational management of liquidity risk is delegated to the Balance Sheet Management section of the Bank Treasury. Liquidity risk is independently monitored against approved policies on a daily basis by the Market Risk division and reported to the Bank Chief Risk Officer.

After extreme disruptions to the financial markets in 2008 and 2009, the Bank has implemented a strategy to de-risk its funding and liquidity management. This approach has seen the Bank:

- increase its high quality liquid assets, including cash and APRA approved securities, to the current level of 20% of total liabilities
- increase deposits, reducing the need for new wholesale funding
- use only short-term funding to cover liquid asset balances; and
- maintain total funding with no more than 50% of less than six months to maturity.

These strategies combined with the additional funding available through the Bank's own balance sheet RMBS facilities eligible for repurchase with the RBA in a crisis scenario, have reduced the Bank's liquidity risk.

Liquidity risk is managed using a framework that includes going concern and name crisis scenario analysis (which are both required by APRA), minimum high quality liquid asset ratios, minimum liquid asset ratios, liquidity concentration limits and other supplementary management trigger limits. These policies are intended to protect the value of the Bank's operations during periods of unfavourable market conditions.

## 38. Specific disclosures – Banking (continued)

### 38(c) Banking risk management (continued)

**Liquidity risk (continued)**

***Concentrations of deposits and borrowings***

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

| | Company and Consolidated Banking | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Australian funding sources** | | |
| Retail deposits | **26,557** | 23,620 |
| Wholesale funding | **7,550** | 12,872 |
| AUD domestic program | **5,725** | 5,223 |
| Securitisation[1] | **3,981** | 4,644 |
| | **43,813** | 46,359 |
| **Overseas wholesale funding sources** | | |
| European commercial paper and medium term note market | **6,916** | 7,219 |
| Subordinated note program | **800** | 884 |
| United States 144a medium term note market | **5,953** | 6,662 |
| Japanese yen bond program | **172** | 172 |
| Securitisation[1] | **924** | 1,549 |
| | **14,765** | 16,486 |
| | **58,578** | 62,845 |
| **Comprised of the following:** | | |
| Deposits from other banks | **280** | 3,235 |
| Other money market deposits | **3,385** | 2,656 |
| Amounts owed to other depositors | **23,239** | 21,418 |
| Certificates of deposits | **6,175** | 8,262 |
| Promissory notes and other liabilities evidenced by paper | **1,029** | 2,573 |
| Other borrowed funds | **24,470** | 24,701 |
| | **58,578** | 62,845 |

1 Funds raised from securitisation through the Apollo trusts are on-lent to the Company through inter-company loan arrangements.

***Maturity analysis***

The following maturity distribution of financial liabilities relating to the consolidated Banking Group is based on undiscounted contractual cash flows as required by AASB 7 *Financial Instruments: Disclosures.* The cash flows for subordinated notes have been included at their next call date. The total cash flows include both principal and associated future interest payments. Interest is calculated based on liabilities held at 30 June, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the balance date.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the less than three months column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

The Banking group does not use this contractual maturity information as presented in the liquidity management of the balance sheet. Additional factors as described above are considered when managing the maturity profiles of the business.

| | Consolidated Banking | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount $m | At call $m | 0 to 3 months $m | 3 to 12 months $m | 1 to 5 years $m | Over 5 years $m | Total cash flows $m |
| **2010** | | | | | | | |
| Deposits and short-term borrowings | **34,268** | **9,615** | **15,582** | **7,120** | **3,038** | **1** | **35,356** |
| Payables due to other banks | **28** | **28** | **–** | **–** | **–** | **–** | **28** |
| Payables and other liabilities | **877** | **–** | **877** | **–** | **–** | **–** | **877** |
| Derivative financial instruments (trading) | **364** | **–** | **364** | **–** | **–** | **–** | **364** |
| Securitisation liabilities | **4,905** | **–** | **380** | **1,149** | **3,412** | **687** | **5,628** |
| Debt issues | **17,044** | **–** | **155** | **7,836** | **10,663** | **–** | **18,654** |
| Subordinated notes | **1,492** | **–** | **227** | **361** | **1,018** | **–** | **1,606** |
| Preference shares | **869** | **–** | **14** | **35** | **957** | **–** | **1,006** |
| | **59,847** | **9,643** | **17,599** | **16,501** | **19,088** | **688** | **63,519** |
| Derivative financial instruments (hedging relationship) | | | | | | | |
| Contractual amounts payable | | **–** | **412** | **1,022** | **1,489** | **–** | **2,923** |
| Contractual amounts receivable | | **–** | **(185)** | **(610)** | **(898)** | **–** | **(1,693)** |
| | **2,044** | **–** | **227** | **412** | **591** | **–** | **1,230** |
| Off-balance sheet positions | | | | | | | |
| Guarantees entered into in the normal course of business | **–** | **287** | **–** | **–** | **–** | **–** | **287** |
| Commitments to provide loans and advances | **–** | **6,046** | **–** | **–** | **–** | **–** | **6,046** |
| | **–** | **6,333** | **–** | **–** | **–** | **–** | **6,333** |
| **2009** | | | | | | | |
| Deposits and short-term borrowings | 38,188 | 10,787 | 16,987 | 8,562 | 2,891 | 2 | 39,229 |
| Payables due to other banks | 29 | 29 | – | – | – | – | 29 |
| Payables and other liabilities | 1,205 | – | 1,205 | – | – | – | 1,205 |
| Derivative financial instruments (trading) | 226 | – | 226 | – | – | – | 226 |
| Securitisation liabilities | 6,193 | – | 478 | 2,463 | 2,903 | 1,298 | 7,142 |
| Debt issues | 16,001 | – | 119 | 2,436 | 15,357 | – | 17,912 |
| Subordinated notes | 1,583 | – | 5 | 70 | 1,737 | – | 1,812 |
| Preference shares | 865 | – | 12 | 30 | 1,018 | – | 1,060 |
| | 64,290 | 10,816 | 19,032 | 13,561 | 23,906 | 1,300 | 68,615 |
| Derivative financial instruments (hedging relationship) | | | | | | | |
| Contractual amounts payable | | – | 329 | 897 | 2,171 | 1 | 3,398 |
| Contractual amounts receivable | | – | (170) | (540) | (1,238) | – | (1,948) |
| | 1,190 | – | 159 | 357 | 933 | 1 | 1,450 |
| Off-balance sheet positions | | | | | | | |
| Guarantees entered into in the normal course of business | – | 349 | – | – | – | – | 349 |
| Commitments to provide loans and advances | – | 7,389 | – | – | – | – | 7,389 |
| | – | 7,738 | – | – | – | – | 7,738 |

## 38. Specific disclosures – Banking (continued)

### 38(c) Banking risk management (continued)

**Liquidity risk (continued)**

***Maturity analysis (continued)***

| | Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount $m | At call $m | 0 to 3 months $m | 3 to 12 months $m | 1 to 5 years $m | Over 5 years $m | Total Cash flows $m |
| **2010** | | | | | | | |
| Deposits and short-term borrowings | **34,203** | **9,549** | **15,582** | **7,120** | **3,038** | **1** | **35,290** |
| Payables due to other banks | **28** | **28** | **–** | **–** | **–** | **–** | **28** |
| Payables and other liabilities | **814** | **–** | **814** | **–** | **–** | **–** | **814** |
| Derivative financial instruments (trading) | **364** | **–** | **364** | **–** | **–** | **–** | **364** |
| Payables to subsidiaries[1] | **5,585** | **–** | **1,060** | **1,149** | **3,412** | **687** | **6,308** |
| Debt issues | **17,053** | **–** | **155** | **7,836** | **10,663** | **–** | **18,654** |
| Subordinated notes | **1,492** | **–** | **227** | **361** | **1,018** | **–** | **1,606** |
| Preference shares | **869** | **–** | **14** | **35** | **957** | **–** | **1,006** |
| | **60,408** | **9,577** | **18,216** | **16,501** | **19,088** | **688** | **64,070** |
| Derivative financial instruments (hedging relationship) | | | | | | | |
| Contractual amounts payable | | **–** | **412** | **1,022** | **1,489** | **–** | **2,923** |
| Contractual amounts receivable | | **–** | **(185)** | **(610)** | **(898)** | **–** | **(1,693)** |
| | **1,915** | **–** | **227** | **412** | **591** | **–** | **1,230** |
| Off-balance sheet positions | | | | | | | |
| Guarantees entered into in the normal course of business | **–** | **284** | **–** | **–** | **–** | **–** | **284** |
| Commitments to provide loans and advances | **–** | **6,046** | **–** | **–** | **–** | **–** | **6,046** |
| | **–** | **6,330** | **–** | **–** | **–** | **–** | **6,330** |
| **2009** | | | | | | | |
| Deposits and short-term borrowings | 37,847 | 10,446 | 16,987 | 8,562 | 2,891 | 2 | 38,888 |
| Payables due to other banks | 29 | 29 | – | – | – | – | 29 |
| Payables and other liabilities | 1,255 | – | 1,255 | – | – | – | 1,255 |
| Derivative financial instruments (trading) | 215 | – | 215 | – | – | – | 215 |
| Payables to subsidiaries[1] | 7,195 | – | 1,480 | 2,463 | 2,903 | 1,298 | 8,144 |
| Debt issues | 16,010 | – | 119 | 2,436 | 15,357 | – | 17,912 |
| Subordinated notes | 1,583 | – | 5 | 70 | 1,737 | – | 1,812 |
| Preference shares | 865 | – | 12 | 30 | 1,018 | – | 1,060 |
| | 64,999 | 10,475 | 20,073 | 13,561 | 23,906 | 1,300 | 69,315 |
| Derivative financial instruments (hedging relationship) | | | | | | | |
| Contractual amounts payable | | – | 329 | 897 | 2,171 | 1 | 3,398 |
| Contractual amounts receivable | | – | (170) | (540) | (1,238) | – | (1,948) |
| | 1,190 | – | 159 | 357 | 933 | 1 | 1,450 |
| Off-balance sheet positions | | | | | | | |
| Guarantees entered into in the normal course of business | – | 346 | – | – | – | – | 346 |
| Commitments to provide loans and advances | – | 7,395 | – | – | – | – | 7,395 |
| | – | 7,741 | – | – | – | – | 7,741 |

1 Funds raised from securitisation through the Apollo trusts are on-lent to the Company through inter-company loan arrangements.

## 38(d) Critical accounting estimates and judgements

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

The key methodologies and assumptions for determining fair values for financial instruments are discussed in note 41. Other key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out below.

### Provision for impairment – specific and collective provisions

The credit provisions raised (specific and collective) represent management's best estimate of the losses incurred in the loan portfolio at balance date. The independent Credit Recovery Unit provides the Bank Credit Risk Committee with analysis of the carrying value of impaired loans and factors impacting recoverability. Impaired loans are reviewed by the Bank Credit Risk Committee to ensure Board approved methodologies and frameworks have been followed, judgements are appropriate and provisions for impairment are adequate.

A specific provision for impairment is recognised where there is objective evidence of impairment and full recovery of the principal is considered doubtful. The provisions are established based primarily on estimates of the realisable (fair) value of collateral taken and are measured as the difference between a financial asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate.

All factors that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. These judgements can change as new information becomes available and work-out strategies evolve.

Group policy requires the level of impairment allowances on individual facilities that are above internal thresholds to be reviewed at least half yearly, and more regularly as circumstances require.

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

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

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

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

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

Each model determines an impairment loss based on the Group's historical experience, with adjustment made for current economic conditions as deemed necessary by the Bank Risk Committee. It is possible that the estimated impairment loss will differ from the actual losses to be incurred from the groups of identified impaired loans.

## 39. Specific disclosures – General Insurance

### 39(a) Contribution to profit from General Insurance activities

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

| | Consolidated General Insurance | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Net earned premium** | | |
| Direct premium revenue | **6,889** | 6,514 |
| Inwards reinsurance premium revenue | **–** | 34 |
| Premium revenue | **6,889** | 6,548 |
| Outwards reinsurance premium expense | **(579)** | (568) |
| | **6,310** | 5,980 |
| **Net incurred claims** | | |
| Claims expense | **(5,966)** | (5,638) |
| Reinsurance and other recoveries revenue | **1,329** | 1,028 |
| | **(4,637)** | (4,610) |
| **Underwriting expenses** | | |
| Acquisition costs | **(968)** | (990) |
| Liability adequacy test deficiency | **–** | (19) |
| Other underwriting expenses | **(746)** | (685) |
| | **(1,714)** | (1,694) |
| Reinsurance commission revenue | **44** | 54 |
| **Underwriting result** | **3** | (270) |
| **Investment revenue – insurance funds** | | |
| Investment income on insurance funds | **605** | 749 |
| Investment expense on insurance funds | **(3)** | (17) |
| | **602** | 732 |
| **Insurance trading result** | **605** | 462 |
| Investment income on shareholder funds | **221** | 157 |
| Investment expense on shareholder funds | **(24)** | (31) |
| Fee for service and other income[1] | **183** | 265 |
| Share of profits (losses) of associates and joint venture entities | **29** | (3) |
| Non-banking interest expense | **(86)** | (129) |
| Other expenses | **(154)** | (158) |
| | **169** | 101 |
| **Contribution to profit from General Insurance activities before amortisation and tax** | **774** | 563 |

1 Included within 'fee for service and other income' for the financial year ended 30 June 2009 is a $76 million gain from the buy back of subordinated notes.

The information set out above includes transactions that have been eliminated in the consolidated income statement. Non-banking interest expense represents interest expense on subordinated notes and interest expense on group funding allocated to General Insurance.

## 39(b) Net incurred claims

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

| | Consolidated General Insurance | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | |
| | **Current year $m** | **Prior year $m** | **Total $m** | Current year $m | Prior year $m | Total $m |
| **Direct business** | | | | | | |
| Gross claims incurred and related expenses | | | | | | |
| Undiscounted | **6,485** | **(441)** | **6,044** | 6,255 | (882) | 5,373 |
| Discount and discount movement | **(327)** | **222** | **(105)** | (302) | 671 | 369 |
| | **6,158** | **(219)** | **5,939** | 5,953 | (211) | 5,742 |
| Reinsurance and other recoveries | | | | | | |
| Undiscounted | **(1,346)** | **(17)** | **(1,363)** | (1,223) | 127 | (1,096) |
| Discount and discount movement | **49** | **(7)** | **42** | 37 | (90) | (53) |
| | **(1,297)** | **(24)** | **(1,321)** | (1,186) | 37 | (1,149) |
| Total direct business | **4,861** | **(243)** | **4,618** | 4,767 | (174) | 4,593 |
| Net inwards reinsurance business | | | **19** | | | 17 |
| **Total net claims incurred** | | | **4,637** | | | 4,610 |

The $243 million reduction (2009: $174 million) in prior year net provisions on the net incurred cost for 2010, is primarily due to prior year net reserve releases offset by decreases in the discount rate applied to outstanding payments.

The sensitivity of net profit to changes in claims assumptions, experience and risk margins is set out in note 39(h).

## 39(c) Managed funds

During the year, subsidiaries were licensed to maintain statutory insurance funds for external clients. The application of the statutory funds by the subsidiaries was restricted to the collection of premiums and the payment of claims, related expenses and other payments authorised under the relevant Acts. The subsidiaries are not liable for any deficiency in the funds, or entitled to any surplus. For these reasons, the directors are of the opinion that the subsidiaries do not have control nor have the capacity to control the statutory funds. The statutory funds are of a separate and distinct nature. Therefore in accordance with AASB 127 *Consolidated and Separate Financial Statements,* income, expenses, assets and liabilities of the statutory funds are not included in the consolidated income statement and the consolidated statement of financial position.

### New South Wales Self Insurance Corporation

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

### New South Wales WorkCover

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

## 39. Specific disclosures – General Insurance (continued)

### 39(c) Managed funds (continued)

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

**Victorian WorkCover**

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

### 39(d) Liability adequacy test

The liability adequacy test (LAT) assesses whether the net unearned premium liability less any related intangible assets and deferred acquisition costs is sufficient to cover future claims costs for in-force policies. Future claims costs are calculated as the present value of the expected cash flows relating to future claims, and includes a risk margin to reflect the inherent uncertainty in the central estimate for each portfolio of contracts, being Australian personal insurance, Australian commercial insurance, and New Zealand General Insurance. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

The LAT as at 30 June 2010 resulted in a surplus in the Australian commercial insurance portfolio. This surplus arose because the present value of the expected future cash flows for future claims of the Australian commercial insurance portfolio of $576 million was less than the unearned premium liability of $884 million less the related deferred acquisition costs and related reinsurance assets of $148 million and $117 million respectively. For Australian personal insurance, the LAT also resulted in a surplus. This surplus arose as the present value of the expected future cash flows for future claims of the Australian personal insurance portfolio of $1,950 million was less than the unearned premium liability of $2,311 million less the related deferred acquisition costs of $234 million.

The LAT as at 30 June 2009 resulted in a deficiency in the Australian commercial insurance portfolio of $19 million. This deficiency represented the amount by which the present value of the expected future cash flows for future claims of the Australian commercial insurance portfolio of $651 million exceeded the unearned premium liability of $899 million less the related deferred acquisition costs and related reinsurance assets of $145 million and $122 million respectively. The deficiency has resulted in a write-down of $19 million in deferred acquisition costs. For Australian personal insurance, the LAT resulted in a surplus. This surplus arose as the present value of the expected future cash flows for future claims of the Australian personal insurance portfolio of $1,855 million was less than the unearned premium liability of $2,194 million less the related deferred acquisition costs of $321 million.

For the purposes of the LAT in Australia, the present value of expected future cash flows for future claims including the risk margin for the Group of $2,526 million (2009: $2,508 million) comprises the discounted central estimate of $2,640 million (2009: $2,624 million), and a risk margin of $61 million (2009: $66 million) less the present value of expected future cash inflows arising from reinsurance recoveries on future claims of $175 million (2009: $182 million).

The LAT as at 30 June 2010 resulted in a surplus (2009: surplus) in the New Zealand general insurance portfolio. This surplus arose because the present value of the expected future cash flows for future claims of the New Zealand general insurance portfolio of $229 million (2009: $214 million) was less than the unearned premium liability of $333 million (2009: $311 million) less the related deferred acquisition costs and related reinsurance assets of $71 million and $14 million respectively (2009: $66 million and $12 million respectively).

For the purpose of the LAT for the New Zealand General Insurance business, the net present value of future cash flows for future claims, including the risk margin is $229 million (2009: $214 million), comprising the discounted central estimate of $224 million (2009: $210 million) and a risk margin of $5 million (2009: $4 million). The risk margin included in the New Zealand General Insurance business' expected future cash flows for future claims as a percentage of the central estimate is 2.3% (2009: 2.0%). The risk margin was determined to give a probability of adequacy of approximately 60% (2009: 60%).

The risk margin included in the Group's expected future cash flows for future claims as a percentage of the central estimate is 2.5% (2009: 2.7%). The risk margin was determined to give a probability of adequacy of approximately 57-64% (2009: 57-64%).

The probability of adequacy adopted for estimating the present value of expected future cash flows for future claims for the purposes of the LAT differs from the 90% probability of adequacy adopted in determining the outstanding claims liability. The reason for these differences is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability recognised on the statement of financial position.

## 39(e) Minimum capital requirements

The minimum capital requirement (MCR) for General Insurance is set out below.

| | Consolidated Insurance group | | Consolidated Domestic Insurance group | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Tier 1 capital** | | | | |
| Share capital | **2,894** | 3,052 | **2,758** | 2,918 |
| Reserves | **10** | – | **10** | – |
| Retained profits | **900** | 355 | **667** | 168 |
| Insurance liabilities in excess of liability valuation | **606** | 524 | **561** | 463 |
| Less: Tax effect of excess insurance liabilities | **(182)** | (109) | **(168)** | (91) |
| | **4,228** | 3,822 | **3,828** | 3,458 |
| Less: | | | | |
| Goodwill and other intangible assets | **(1,188)** | (1,190) | **(1,111)** | (1,113) |
| Other Tier 1 deductions | **(36)** | (186) | **(36)** | (186) |
| Total deductions from Tier 1 capital | **(1,224)** | (1,376) | **(1,147)** | (1,299) |
| Total Tier 1 capital | **3,004** | 2,446 | **2,681** | 2,159 |
| **Tier 2 capital** | | | | |
| Subordinated notes | **778** | 784 | **778** | 784 |
| Total Tier 2 capital | **778** | 784 | **778** | 784 |
| **APRA capital base** | **3,782** | 3,230 | **3,459** | 2,943 |
| Outstanding claims risk capital charge | **822** | 787 | **802** | 770 |
| Premium liabilities risk capital charge | **460** | 453 | **424** | 422 |
| Investment risk capital charge | **514** | 492 | **469** | 453 |
| Catastrophe risk capital charge | **200** | 200 | **200** | 200 |
| **Total minimum capital requirement (MCR)** | **1,996** | 1,932 | **1,895** | 1,845 |
| **MCR coverage ratio (times)** | **1.89** | 1.67 | **1.83** | 1.60 |

## 39(f) General Insurance risk management

General Insurance has a structured risk management framework in place to manage key risks including insurance, credit, market and liquidity risks. The framework includes a Risk Management Strategy which describes at a high level the language, accountabilities, principles, policies and practices, systems and tools, and reporting processes used to manage risk. General Insurance also has in place a Reinsurance Management Strategy which describes the reinsurance management framework, including key management responsibilities, internal controls, policies and procedures that the Group has put in place to meet the requirements of the general insurance prudential standards (GPS 220, GPS 221 and GPS 230) as issued by APRA. These policies have been approved by the Board and APRA, form part of the risk policy of the Group, and are consistent with the Australian Standard on Risk Management (AS/NZS 4360). In addition, the Board has received Financial Condition Reports from the General Insurers' Appointed Actuary.

The Group has in place a General Insurance Asset and Liability Committee (GI ALCO). The primary objective of the GI ALCO is to establish, manage and enforce an effective asset and liability risk framework that optimises the long-term returns of the technical reserve and shareholder funds portfolios within the current risk appetite established by the Board.

## 39. Specific disclosures – General Insurance (continued)

### 39(f) General Insurance risk management (continued)

**Insurance risk**

The Group has an objective to control insurance risk and thereby reduce the volatility of earnings.

***Risk management objectives and policies for mitigating insurance risk***

The risk management activities include prudent underwriting, pricing, acceptance and management of risk, together with claims management and reserving. The objective of these disciplines is to enhance the financial performance of the Group's overall General Insurance operations.

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

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

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

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. The majority of direct insurance contracts written are entered into on a standard form basis. Insurance contracts are generally entered into on an annual basis and at the time of entering into a contract all terms and conditions are negotiable or, in the case of renewals, renegotiable. Non-standard and long-term policies may only be written if expressly approved by a relevant delegated authority. There are no special terms and conditions in any non-standard contracts that would have a material impact on the financial statements. There are no embedded derivatives that are separately recognised from a host insurance contract.

***Concentration of insurance risk***

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

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

**Credit risk**

The Board Risk Committee oversees the effectiveness of credit risk management in relation to General Insurance activities.

The Group enters into reinsurance arrangements to preserve capital and manage earnings volatility from large individual or catastrophic claims. The credit risk associated with these arrangements is monitored and managed internally and by specialised reinsurance brokers operating within the international reinsurance market.

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. Concentration of credit risk is managed by individual counterparty, by credit rating and industry type. The Group does not expect any counterparties to fail to meet their obligations given their credit ratings and therefore does not require collateral or other security to support credit risk exposures. Over-concentration of credit risk is avoided by placement of cover with a number of reinsurers as well as setting participation limits and minimum security requirements on the program. Reinsurance is placed with companies with Standard & Poor's (or equivalent if a Standard & Poor's rating is unavailable) credit ratings of A minus or better in accordance with policy.

Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings.

The following tables provide information regarding the aggregate credit risk exposure of the Group's General Insurance businesses 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 – BBB are classified non-investment grade.

| | Credit rating | | | | | Not rated | Total |
|---|---|---|---|---|---|---|---|
| | AAA $m | AA $m | A $m | BBB $m | Non-investment grade $m | $m | $m |
| **2010** | | | | | | | |
| Cash and cash equivalents | **–** | **90** | **65** | **1** | **–** | **–** | **156** |
| Investment securities | **5,260** | **4,360** | **1,253** | **140** | **11** | **127** | **11,151** |
| Loans and receivables | **127** | **22** | **44** | **–** | **–** | **2,079** | **2,272** |
| Reinsurance and other recoveries on outstanding claims liabilities | **356** | **297** | **477** | **–** | **–** | **421** | **1,551** |
| Derivative financial instruments | **–** | **15** | **21** | **–** | **–** | **–** | **36** |
| Other | **45** | **56** | **14** | **2** | **–** | **–** | **117** |
| | **5,788** | **4,840** | **1,874** | **143** | **11** | **2,627** | **15,283** |
| **2009** | | | | | | | |
| Cash and cash equivalents | 9 | 598 | 46 | – | – | 14 | 667 |
| Investment securities | 5,463 | 2,920 | 792 | 227 | 4 | 2 | 9,408 |
| Loans and receivables | 57 | 21 | 21 | 4 | – | 1,672 | 1,775 |
| Reinsurance and other recoveries on outstanding claims liabilities | 349 | 209 | 367 | 40 | – | 346 | 1,311 |
| Derivative financial instruments | – | 31 | 31 | – | – | 4 | 66 |
| Other | 46 | 44 | 14 | 1 | – | 2 | 107 |
| | 5,924 | 3,823 | 1,271 | 272 | 4 | 2,040 | 13,334 |

The majority of the loans and receivables balance is outstanding premiums on policies which are paid on a monthly instalment basis. Late payment of these amounts allows the Group to cancel the related insurance contract eliminating both the credit risk and insurance risk for the unpaid amounts.

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 recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The face value and fair value of derivatives are illustrated in note 42.

## 39. Specific disclosures – General Insurance (continued)

### 39(f) General Insurance risk management (continued)

**Credit risk (continued)**

The following table provides information regarding the carrying value of the Group's General Insurance 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.

| | Neither past due nor impaired | Past due but not impaired | | | | Impaired | Total |
|---|---|---|---|---|---|---|---|
| | | 0-3 mths | 3-6 mths | 6-12 mths | > 12 mths | | |
| | $m | $m | $m | $m | $m | $m | $m |
| **2010** | | | | | | | |
| Premiums outstanding | **1,679** | **64** | **10** | **4** | **5** | **–** | **1,762** |
| Insurance managed funds receivable | **29** | **–** | **–** | **–** | **–** | **–** | **29** |
| Investment settlements | **98** | **–** | **–** | **–** | **–** | **–** | **98** |
| Reinsurance and other recoveries on outstanding claims liabilities | **1,551** | **–** | **–** | **–** | **–** | **–** | **1,551** |
| Insurance recoveries and other receivables | **65** | **27** | **7** | **2** | **2** | **–** | **103** |
| Outstanding proceeds from sale of joint ventures | **280** | **–** | **–** | **–** | **–** | **–** | **280** |
| Other | **117** | **–** | **–** | **–** | **–** | **–** | **117** |
| | **3,819** | **91** | **17** | **6** | **7** | **–** | **3,940** |
| **2009** | | | | | | | |
| Premiums outstanding | 1,598 | 53 | 10 | 3 | 5 | 1 | 1,670 |
| Investment revenue receivable | 5 | – | – | – | – | – | 5 |
| Insurance managed funds receivable | 60 | – | – | – | – | – | 60 |
| Investment settlements | 1 | – | – | – | – | – | 1 |
| Reinsurance and other recoveries on outstanding claims liabilities | 1,311 | – | – | – | – | – | 1,311 |
| Insurance recoveries and other receivables | 12 | 16 | 5 | 2 | 4 | – | 39 |
| Other | 107 | – | – | – | – | – | 107 |
| | 3,094 | 69 | 15 | 5 | 9 | 1 | 3,193 |

**Market risk**

The main source of market risk comes from the investment portfolios. The Group's General Insurance business has distinct investment portfolios, each with their own investment mandate. The investment mandates specify investment restrictions including but not limited to asset class limits, authorised investments, duration limits, derivative restrictions, minimum credit ratings and counterparty credit limits.

The technical reserve investment portfolios support the outstanding claims liabilities of the business. The portfolios are managed over benchmarks set in a manner consistent with the expected duration of claims payments ensuring any variations from a matched position is constrained. The mismatch in duration of benchmarks and liabilities is managed via an interest rate risk hedge portfolio. Assets held are predominantly fixed interest securities.

The shareholder investment portfolios are held for the investment of funds in support of share capital and retained profits. To provide better expected returns on capital, the investment mandate for this portfolio has a more diverse investment strategy predominantly including fixed interest, property and cash. The investment mandates balance expected investment returns, volatility of expected investment returns and the impact of volatility on both the capital adequacy and profitability of the business.

Investments are measured at fair value and changes in fair value are recognised in the income statement. The property investments are subject to regular independent valuations.

### *Interest rate risk*

Interest rate risk arises from investment exposures to interest-bearing securities and from the ongoing valuation of insurance liabilities. Interest rates have an impact on both the value of assets and liabilities and the main sources of loss are adverse changes in the valuation of investments in interest-bearing securities and outstanding claims liabilities.

A change in the market value of investments in interest-bearing securities is immediately recognised in the income statement. The General Insurance investment portfolios hold significant interest-bearing securities in support of corresponding outstanding claims liabilities and are invested in a manner consistent with the expected duration of claims payments.

The valuation of the outstanding claims liabilities includes the discounting to present value at balance date of expected future claim payments. Any assessment of the impact of changes in interest rates on investment income must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims valuations.

This risk is managed by establishing investment portfolio mandates on the basis of the appropriate matching principles so as to minimise the impact on the operating result, over the long term, of changes in the general level of market interest rates. Interest rate risk is also managed by the controlled use of interest rate derivative instruments. The discount rates being applied to future claims payments in determining the valuation of outstanding claims is disclosed in note 39(h).

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 balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. The risks faced and the methods used for deriving sensitivity information and significant variables did not change from the previous period.

| | **2010** | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Exposure at Jun-10 $m** | **Movement in variable %** | **Profit (loss) after tax $m** | **Equity reserves $m** | Exposure at Jun-09 $m | Movement in variable % | Profit (loss) after tax $m | Equity reserves $m |
| Interest-bearing | **11,058** | **+2** | **(352)** | **–** | 9,406 | +2 | (428) | – |
| investment securities (including derivative financial instruments) | | **–2** | **352** | **–** | | –2 | 429 | – |
| Subordinated notes | **(129)** | **+2** | **(2)** | **–** | (135) | +2 | (2) | – |
| | | **–2** | **2** | **–** | | –2 | 2 | – |
| Other financial liabilities | **(41)** | **+2** | **(1)** | **–** | (42) | +2 | (1) | – |
| | | **–2** | **1** | **–** | | –2 | 1 | – |

The balance date measurement of the cash and cash equivalents and loans, advances and receivable (primarily outstanding premiums) are not sensitive to movements in interest rates and so a change in interest rates as at balance date would have had no impact on either profit or equity from the measurement of cash and cash equivalents or loans, advances and receivables for the current or prior 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 either profit or equity.

The balance date measurement of interest-bearing liabilities measured at amortised cost is not sensitive to movements in interest rates and so a change in interest rates as at balance date would have no impact on either profit or equity from the measurement of these liabilities for the current or prior financial year.

### *Foreign exchange risk*

The Group's General Insurance entities have ongoing foreign exchange obligations in relation to a number of outstanding claims which have arisen in relation to previously written offshore inwards reinsurance business. The outstanding claims liability has been established on the basis of assessments in relation to potential exposure.

The claim payments will be predominantly in United States dollars. To hedge this currency exposure, a United States dollar forward foreign exchange contract is held within the General Insurance technical reserves portfolio. The details of the forward foreign exchange agreement are contained in note 42(b).

## 39. Specific disclosures – General Insurance (continued)

### 39(f) General Insurance risk management (continued)

**Market risk (continued)**

***Foreign exchange risk (continued)***

The Group's exposure to foreign currency risk in the General Insurance businesses 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 was performed on the same basis for 2009.

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Exposure at Jun-10 $m** | **Movement in variable %** | **Profit (loss) after tax $m** | **Equity reserves $m** | Exposure at Jun-09 $m | Movement in variable % | Profit (loss) after tax $m | Equity reserves $m |
| USD | **11** | **+10** | **(1)** | **–** | 12 | +10 | (1) | – |
| | | **–10** | **1** | **–** | | –10 | 1 | – |

***Other market risks***

Other market risks are the risk of a loss of current and future earnings from adverse movements in the changes in market prices due to factors other than interest rates and foreign exchange. Those factors may be specific to the individual financial instrument or its issuer, or factors that affect all similar financial instruments traded in the market. The main other market risks that the Group's General Insurance investment portfolios are exposed to equity risk, credit spread risk and property risk.

***Equity risk*** is the risk of loss in current and future General Insurance earnings from adverse moves in equity prices. Downturns in equity markets would impact the current and future results of the Group. The General Insurance business has exposure to equity risk through investments in international unit trusts where the unit trusts have investments in equity.

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Exposure at Jun-10 $m** | **Movement in variable %** | **Profit (loss) after tax $m** | **Equity reserves $m** | Exposure at Jun-09 $m | Movement in variable % | Profit (loss) after tax $m | Equity reserves $m |
| International unit trusts | 80 | **+25** | (13) | – | 59 | +25 | (10) | – |
| | | **–25** | 13 | – | | –25 | 10 | – |

***Credit spread risk*** is the risk of loss in current and future General Insurance earnings from adverse moves in credit spreads. Credit spread risk is determined by capital market sentiment or factors affecting all issuers in the market and not necessarily due to factors specific to an individual issuer. The main source of loss is adverse changes in the valuation of investments in interest-bearing securities. A change in the market value of investments in interest-bearing securities is immediately recognised in the income statement. The General Insurance investment portfolios hold significant interest-bearing securities in support of corresponding insurance provisions. The portfolio is heavily weighted towards investments with a high quality investment grade.

This risk is managed by incorporating a diverse holding of investments in the Group's General Insurance investment portfolios, establishing maximum exposure limits for counterparties and minimum limits on credit ratings. Investments are also subject to ongoing stress testing which is reviewed regularly by the GI ALCO. The table provided under the heading of 'Credit risk' provides information in relation to aggregate credit exposure of the Group's General Insurance investment portfolio by credit rating at the balance date.

Given the significant volatility experienced in the market during the last two years, the sensitivity of the Group's General Insurance businesses credit exposure has been calculated for a +/– 200 basis point (2009: 200 basis point) change in yield on securities other than semi-government for which a +/– 60 basis point change has been adopted as follows:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Exposure at Jun-10 $m** | **Movement in variable %** | **Profit (loss) after tax $m** | Exposure at Jun-09 $m | Movement in variable % | Profit (loss) after tax $m |
| Credit exposure (excluding semi-government) | **7,807** | **+2.0** | **(214)** | 5,267 | +2.0 | (152) |
| | | **–2.0** | **214** | | –2.0 | 152 |
| Credit exposure (semi-government) | **1,631** | **+0.6** | **(14)** | 2,394 | +0.6 | (20) |
| | | **–0.6** | **14** | | –0.6 | 20 |

***Property risk*** is the risk of loss in current and future General Insurance earnings from adverse moves in property prices. An overall downturn in the property market may impact the future results of the Group. The General Insurance investment portfolios contain exposure to the property risk by way of direct property holdings, which are included in note 21.

**Liquidity risk**

The ability to make claims payments in a timely manner is critical to the Group's General Insurance business. The investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations. Investment funds are set aside within the investment portfolio in support of these reserves to accommodate significant claims payment obligations. This is accompanied by mandated liquidity limits for each General Insurance legal entity. In addition, under the terms of the Group's reinsurance arrangements, immediate access to cash is available in the event of a major catastrophe.

The table below summarises the maturity profile of certain financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for outstanding claims liabilities determined 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 | Total cash flows $m |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Bank overdraft | **43** | **43** | **–** | **–** | **43** |
| Amounts due to reinsurers | **120** | **118** | **2** | **–** | **120** |
| Trade creditors and accrued expenses | **403** | **403** | **–** | **–** | **403** |
| Investment settlements | **121** | **121** | **–** | **–** | **121** |
| Interest rate swaps and futures – net settled | **1** | **1** | **–** | **–** | **1** |
| Unearned premium liabilities | **3,672** | **3,665** | **7** | **–** | **3,672** |
| Net outstanding claims liabilities | **6,335** | **2,046** | **3,128** | **1,161** | **6,335** |
| Interest-bearing liabilities | **41** | **7** | **32** | **10** | **49** |
| Subordinated notes | **694** | **44** | **348** | **552** | **944** |
| Managed funds units on issue | **15** | **15** | **–** | **–** | **15** |
| | **11,445** | **6,463** | **3,517** | **1,723** | **11,703** |
| *Gross settled derivatives* | | | | | |
| Amounts receivable | **–** | **(13)** | **(53)** | **(240)** | **(306)** |
| Amounts payable | **48** | **17** | **19** | **90** | **126** |
| | **48** | **4** | **(34)** | **(150)** | **(180)** |
| **2009** | | | | | |
| Bank overdraft | 66 | 66 | – | – | 66 |
| Amounts due to reinsurers | 132 | 132 | – | – | 132 |
| Trade creditors and accrued expenses | 420 | 419 | – | – | 419 |
| Investment settlements | 308 | 308 | – | – | 308 |
| Interest rate swaps and futures – net settled | 18 | – | 1 | 17 | 18 |
| Unearned premiums liabilities | 3,528 | 3,517 | 11 | – | 3,528 |
| Net outstanding claims liabilities | 6,059 | 1,970 | 3,055 | 1,034 | 6,059 |
| Interest-bearing liabilities | 42 | 8 | 32 | 15 | 55 |
| Subordinated notes | 729 | 52 | 214 | 919 | 1,185 |
| Managed funds units on issue | 17 | 17 | – | – | 17 |
| | 11,319 | 6,489 | 3,313 | 1,985 | 11,787 |
| *Gross settled derivatives* | | | | | |
| Amounts receivable | – | (16) | (66) | (308) | (390) |
| Amounts payable | 51 | 12 | 81 | 355 | 448 |
| | 51 | (4) | 15 | 47 | 58 |

## 39. Specific disclosures – General Insurance (continued)

### 39(g) Critical accounting estimates and judgements

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

The key methodologies and assumptions for determining fair values for financial instruments are discussed in note 41. Other key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out below.

#### Outstanding claims liabilities

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

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

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

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

Details of specific actuarial techniques and assumptions used in calculating the outstanding claims liability at balance date are described in note 39(h).

#### Assets arising from reinsurance contracts and other recoveries

Estimates of reinsurance and other recoveries are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk.

#### Assets arising from insurance managed funds contracts

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

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

The statutory authorities allocate the base fee to each authorised agent based on factors such as market share and service capability. The performance fee is allocated to each authorised agent based on performance components set by each statutory authority.

### 39(h) Actuarial assumptions and methods

The Group divides its General Insurance business into two categories: Personal and Commercial.

Personal insurance includes the sale of home, pleasurecraft and motor insurance products throughout Australia and New Zealand.

Commercial insurance includes the sale of products such as commercial motor vehicle, marine, public liability and professional indemnity to enterprises in Australia and New Zealand, the sale of compulsory third party insurance in Queensland and New South Wales, workers' compensation insurance and some inwards reinsurance.

Multiple actuarial methods have generally been applied to project future claim payments. This assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes. The most appropriate method or a blend of methods is selected, taking into account the characteristics of the class of business and the extent of the development of each past accident period.

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

## Assumptions

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

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Personal | | Commercial | | Personal | | Commercial | |
| | Aust | NZ | Aust | NZ | Aust | NZ | Aust | NZ |
| Weighted average term to settlement (years) | **0.6** | **0.4** | **5.1** | **1.9** | 0.8 | 0.4 | 4.8 | 1.2 |
| Inflation rate | **4.1%** | **3.0%** | **4.5%** | **3.0%** | 4.0% | 3.0% | 4.0% | 3.0% |
| Superimposed inflation rate | **0.4%** | **0.0%** | **2.9%** | **1.9%** | 2.2% | 0.1% | 3.7% | 2.3% |
| Discount rate | **4.5%** | **3.6%** | **5.0%** | **4.7%** | 4.2% | 4.3% | 5.2% | 3.9% |
| Claims handling expense ratio | **7.2%** | **6.3%** | **4.2%** | **5.7%** | 7.6% | 5.9% | 5.2% | 7.0% |
| Risk margin | **11.0%** | **12.6%** | **19.3%** | **21.2%** | 10.2% | 11.7% | 19.1% | 26.5% |

### Process used to determine assumptions

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

#### *Weighted average term to settlement*

The weighted average term to settlement is calculated separately by business category and is based on historic settlement patterns.

#### *Economic and superimposed inflation*

The inflation assumptions for the outstanding claim liabilities can be considered the sum of economic inflation and superimposed inflation. The former would be typically based on consumer price index and/or increases in average weekly earnings. Superimposed inflation reflects the past tendency for some costs, such as court awards, to increase at levels in excess of economic inflation. Inflation assumptions are set at a class of business level and reflect past experience and future expectations.

#### *Discount rate*

The outstanding claims liabilities are discounted at a risk-free discount rate. Discount rates are derived from market yields on Commonwealth Government securities in Australia and 10-year government stock rate in New Zealand at the balance date.

#### *Claims handling expense ratio*

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

#### *Risk margin*

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

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall position which is intended to have approximately a 90% probability of sufficiency (2009: 90%).

The overall risk margin applied, allowing for diversification, was 18.3% (2009: 18.1%).

## 39. Specific disclosures – General Insurance (continued)

### 39(h) Actuarial assumptions and methods (continued)

**Sensitivity analysis**

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

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

***Impact of changes in key variables***

The table below summarises the sensitivity of the net profit to changes in key variables.

| | | Financial impact[1] | | | |
|---|---|---|---|---|---|
| | | **2010** | | 2009 | |
| | Movement in variable % | **Profit (loss) after tax $m** | **Equity reserves $m** | Profit (loss) after tax $m | Equity reserves $m |
| Weighted average term to settlement (years) | + 0.5 | **(65)** | **–** | (71) | – |
| | – 0.5 | **65** | **–** | 70 | – |
| Inflation rate | +1 | **(198)** | **–** | (178) | – |
| | –1 | **183** | **–** | 167 | – |
| Discount rate | +1 | **186** | **–** | 171 | – |
| | –1 | **(205)** | **–** | (186) | – |
| Claims handling expense ratio | +1 | **(48)** | **–** | (46) | – |
| | –1 | **48** | **–** | 46 | – |
| Risk margin | +1 | **(51)** | **–** | (49) | – |
| | –1 | **51** | **–** | 49 | – |

1 Determined at the Group level net of reinsurance and taxation at the prima facie rate of 30%

## 40. Specific disclosures – Life

### 40(a) Contribution to profit from Life activities

| | Consolidated Life | |
|---|---|---|
| | **2010 $m** | 2009 $m |
| **Revenue** | | |
| Premiums received or receivable | **3,028** | 1,815 |
| Premiums recognised as a change in gross policy liabilities | **(2,272)** | (1,096) |
| Premium revenue | **756** | 719 |
| Outwards reinsurance premium expense | **(187)** | (181) |
| | **569** | 538 |
| Investment revenue (loss) | **775** | (692) |
| Fees from trust and fiduciary activities | **95** | 116 |
| Other revenue | **154** | 125 |
| | **1,593** | 87 |
| **Operating expenses** | | |
| Claims paid or payable | **(3,048)** | (1,940) |
| Claims recognised as a change in gross policy liabilities | **2,571** | 1,503 |
| Claims expense | **(477)** | (437) |
| Reinsurance recoveries revenue | **177** | 159 |
| | **(300)** | (278) |
| Policy acquisition expenses | | |
| commission | **(80)** | (68) |
| other | **(75)** | (46) |
| Policy maintenance expenses | | |
| commission | **(60)** | (45) |
| other | **(132)** | (151) |
| Investment management expenses | **(26)** | (30) |
| Other operating expenses | **(189)** | (211) |
| Decrease in net insurance contract liabilities | **3** | 415 |
| (Increase) decrease in net investment contract liabilities | **(368)** | 452 |
| (Increase) in unvested policyowner benefits | **(6)** | (83) |
| Outside beneficial interests in managed funds | **(44)** | 70 |
| Non-banking interest expense | **(6)** | (13) |
| | **(1,283)** | 12 |
| **Contribution to profit from Life activities before amortisation and tax** | **310** | 99 |

Segment information set out above includes transactions that have been eliminated in the consolidated income statement. The above segment result includes profits relating to minority interests and policyowners' tax.

## 40. Specific disclosures – Life (continued)

### 40(b) Sources of Life Insurance operating profit

| | Consolidated Life | | | |
|---|---|---|---|---|
| | Life insurance contracts $m | Investment linked contracts $m | Other life investment contracts $m | Total Statutory Funds $m |
| **2010** | | | | |
| **Shareholders' operating profit in the Statutory Funds** | | | | |
| The shareholders' operating profit after tax in the Statutory Funds is represented by: | | | | |
| Investment earnings on shareholders' retained profits and capital | **87** | **5** | **1** | **93** |
| Emergence of shareholders' planned profits | **92** | **–** | **–** | **92** |
| Experience profit | **13** | **–** | **–** | **13** |
| Reversal of capitalised loss (losses capitalised) | **1** | **–** | **–** | **1** |
| Management services profit | **–** | **18** | **1** | **19** |
| | **193** | **23** | **2** | **218** |
| **Cumulative losses carried forward at the end of the financial year** | **28** | **–** | **–** | **28** |
| **Life Act policyowners' operating profit in the Statutory Funds** | | | | |
| The Life Act policyowners' operating profit after tax in the Statutory Funds is represented by: | | | | |
| Investment earnings on retained profits | **23** | **–** | **–** | **23** |
| Emergence of policyowner planned profits | **60** | **–** | **–** | **60** |
| Experience profit | **5** | **–** | **–** | **5** |
| | **88** | **–** | **–** | **88** |
| **2009** | | | | |
| **Shareholders' operating profit in the Statutory Funds** | | | | |
| The shareholders' operating profit after tax in the Statutory Funds is represented by: | | | | |
| Investment earnings on shareholders' retained profits and capital | 8 | (1) | – | 7 |
| Emergence of shareholders' planned profits | 99 | – | – | 99 |
| Experience profit | 9 | – | – | 9 |
| Reversal of capitalised loss (losses capitalised) | 2 | – | – | 2 |
| Management services profit | – | 10 | – | 10 |
| | 118 | 9 | – | 127 |
| **Cumulative losses carried forward at the end of the financial year** | 30 | – | – | 30 |
| **Life Act policyowners' operating profit in the Statutory Funds** | | | | |
| The Life Act policyowners' operating profit after tax in the Statutory Funds is represented by: | | | | |
| Investment earnings on retained profits | (12) | – | – | (12) |
| Emergence of policyowner planned profits | 114 | – | – | 114 |
| | 102 | – | – | 102 |

## 40(c) Net 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 dates of the actuarial reports on policy liabilities and solvency reserves for Suncorp Life & Superannuation Limited (SLSL), Asteron Life Limited (Australia) (ALL) and Asteron Life Limited (New Zealand) (ALLNZ) are 30 June 2010. The actuarial reports for Suncorp Life & Superannuation Limited and Asteron Life Limited (Australia) were prepared by Mr Michael Lubke, Appointed Actuary BSc (Hons) FIAA. The actuarial report for Asteron Life Limited (New Zealand) was prepared by Mr Daniel Wong, Company Actuary MMgt FIAA FNZSA. All reports indicated that the Appointed/Company Actuaries are satisfied as to the accuracy of the data upon which policy liabilities have been determined.

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

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

For life insurance contracts, the Prudential Standards require 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.

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

| Business type | Method | Profit carrier |
|---|---|---|
| **Individual** | | |
| Conventional | Projection | Participating business – bonuses |
| | | Non-participating business – expected claim payments |
| Investment account[1] | Projection | Interest credits |
| Accidental cash back[1] | Projection | Expected payments |
| Allocated pension[1] | Projection | Interest credits |
| Lump sum risk[1, 2] | Projection | Expected claim payments (expected premiums for Trauma business)[3] |
| Disability income | Projection | Expected claim payments |
| Annuity[1, 2] | Projection | Annuity payments |
| **Group** | | |
| Investment account | Projection | Interest credits |
| Lump sum risk[4] | Accumulation | Not applicable |
| Disability income[4] | Accumulation | Not applicable |
| Lump sum risk[2, 5] | Projection | Expected claim payments |
| Disability income risk[2, 5] | Projection | Expected claim payments |

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

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.

## 40. Specific disclosures – Life (continued)

### 40(c) Net policy liabilities (continued)

The following table sets out key assumptions used in the calculation of policy liabilities. The Group contains three life insurance companies, across two countries. Each of these companies has a different mix of business, which has arisen over many years under different products, different underwriting standards and sold to different segments of the market. Experience for each of the life companies, in relation to factors such as mortality, morbidity, and lapse rates is examined in detail on at least an annual basis, with assumptions set having regard to the observed experience, the volume of internal data upon which to make inferences and other relevant factors for the company in question. This may lead to different assumptions for each company.

| 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. For SLSL pre-tax rates varied from 6.2% (2009: 6.9%) to 7.4% (2009: 7.4%). For ALL 7.1% (2009: 7.8%) and for ALLNZ 6.8% (2009: 8.0%).<br>All non-participating business uses an investment earnings and discount rate assumption of the risk-free rate. For SLSL and ALL this has been determined from the government bond curve and varied (before tax) between 4.2% and 5.6% (2009: between 3.0% and 6.0% for SLSL and between 3.5% and 6.2% for ALL based on the swap rate curve). For ALLNZ the risk-free rate is derived from the swap rate curve and varied (before tax) between 3.75% and 6.35% (2009: 6.0% for all durations). | For ALL, the risk-free discount rate assumption is now based on the government bond curve, as opposed to the swap rate curve. |
| Maintenance expenses | Per policy expense rates are based upon expected costs to service existing contracts in the period following the reporting date. Expense rates vary by product line and class of business. Tax deductibility of expenses is allowed for at rates appropriate to the taxation basis of the business. | None. |
| Inflation | The inflation assumption is reviewed at each valuation. For this valuation 3.0% (2009: 3.0%) was assumed for Australia and 2.5% (2009: 2.5%) for New Zealand, 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, SLSL has used 3.0% (2009: 3.0%) and ALL has used an assumption of 2.5% (2009: 2.5%). | None. |
| Voluntary discontinuance | Rates are based upon recent internal investigations. Rates may vary by product, class of business, policy value, age and duration in force. Allowance is also made for cash withdrawals. Future long-term rates of discontinuance assumed vary between 4% and 25% (2009: between 2.5% and 30%) for SLSL and between 3% and 26% (2009: 1% and 25%) for ALL and between 6% and 22.5% (2009: 6% and 20%) for ALLNZ. | For SLSL moderate increases for risk business and allocated pensions having regard to recent experience.<br>For ALL retail Life Risk business assumed lapse rates have been increased 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 | SLSL: Mortality rates for risk products have been determined using the standard mortality table (IA95-97) with adjustments for smoking status and also to allow for previous experience. Adjustments for Australia range from 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.<br>ALL: The adjustment to IA95-97 before allowance for smoker/non-smoker adjustments for most risk business in ALL is 62% (2009: 62%).<br>ALLNZ: The adjustment to IA95-97 before allowance for smoker/non-smoker adjustments for ALLNZ is 95% (2009: 95%). | Assumed rate of mortality for SLSL lump sum business has been reduced having regard to observed experience. |

| Assumption | Basis of assumption | Significant changes since 2009 |
|---|---|---|
| Mortality – annuitants | Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments:<br>SLSL: 60% (2009: 55%) for males and 70% (2009: 65%) for females with assumed future age-related improvements (2009: nil improvements) applied to the 60% and 70% factors from a base year of 1996.<br>ALL: 55% (2009: 55%) for both males and females with assumed future age-related improvement applied to the 55% from a base year of 1996.<br>ALLNZ: 68% (2009: 70%) of IM80(1998)/IF80(1998) for both males and females with assumed future age-related improvements.<br>Tables IM/IF80 were developed by the Institute of Actuaries and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982. | For SLSL, 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 SLSL's, ALL's and ALLNZ's experience.<br>For trauma policies, assumed incidence rates are based on Australian/New Zealand population statistics with adjustments to reflect SLSL's, ALL's and ALLNZ's experience and policy conditions. | For SLSL, assumed rate of TPD has been reduced having regard to observed experience, whilst assumed incidence for trauma has been increased. For ALL, reductions assumed for some trauma conditions, but offset by assumed increase in TPD incidence. |
| Disability – income | Disability rates on income policies have been determined using the IAD89-93 table with adjustments to reflect SLSL's, ALL's and ALLNZ's experience. IAD89-93 was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993. For New Zealand, these rates were adjusted by factors dependent on New Zealand industry experience, company experience and nature of benefits. | For SLSL, assumed rate of incidence has been reduced having regard to observed experience. For ALL and ALLNZ some reductions have been made to assumed recovery rates at longer durations. |
| Group lump sum (Asteron) | In ALL, claim rates are set as a proportion of premiums net of commission and stamp duty. In ALLNZ, claim rates are set as a proportion of premiums net of commission and GST where applicable. | None. |
| Group disability income (Asteron) | In Australia, claim rates are set as a proportion of premiums net of commission and stamp duty. Claim termination rates are determined using CIDA85 with adjustments to reflect ALL's experience. In New Zealand, claim rates are set as a proportion of premiums net of commission and GST where applicable. Claim termination rates are determined using IAD89-93 with adjustments to reflect ALLNZ's experience. | For ALL, assumed claims cost as a proportion of premiums 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.<br>For participating whole of life and endowment business, the Group's policy is to set bonus rates such that, over long periods, the returns to 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 share 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. | None. |

## 40. Specific disclosures – Life (continued)

### 40(c) Net policy liabilities (continued)

| | Consolidated Life Insurance | | |
|---|---|---|---|
| | Current basis[4] | | Previous basis[5] |
| | **2010 $m** | 2009 $m | **2010 $m** |
| **Insurance contract policy liabilities** | | | |
| **Best estimate liability** | | | |
| Value of future policy benefits[1] | **4,510** | 4,480 | **4,534** |
| Value of future expenses | **2,027** | 1,801 | **1,975** |
| Value of unrecouped acquisition expenses | **(182)** | (173) | **(182)** |
| Balance of future premiums | **(6,498)** | (5,801) | **(6,423)** |
| | **(143)** | 307 | **(96)** |
| **Value of future profits** | | | |
| Policyowner bonuses[2] | **493** | 458 | **478** |
| Shareholder profit margins | **1,159** | 1,032 | **1,129** |
| | **1,652** | 1,490 | **1,607** |
| **Total value of declared bonuses[3]** | **75** | 16 | **76** |
| **Total net policy liabilities** | **1,584** | 1,813 | **1,587** |
| Life insurance reinsurance ceded | **327** | 311 | **327** |
| **Gross insurance contract liabilities** | **1,911** | 2,124 | **1,914** |
| Gross investment contract liabilities at the end of the financial year | **3,672** | 3,423 | **3,671** |
| **Gross policy liabilities** | **5,583** | 5,547 | **5,585** |
| Policy liabilities subject to capital guarantee | **1,345** | 1,465 | **1,354** |

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

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

**Restrictions on assets**

Investments held in the life insurance Statutory Funds can only be used within the restrictions imposed under the Life Act and the constitution of Suncorp Life & Superannuation Limited and Asteron Life Limited (Australia). The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions. Participating policyowners can receive a distribution when solvency requirements are met, while shareholders can only receive a distribution when the higher level of capital adequacy requirements are met.

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

**Managed assets**

Tyndall Investment Management Limited operates as the investment manager for the funds of external clients and subsidiaries, superannuation schemes and unit trusts of the Group. This company manages nine (2009: nine) unit trusts with a combined total of $5,168 million (2009: $3,124 million) of assets under management. Suncorp Metway Investment Management Limited manages 17 (2009: 17) unit trusts with a combined total of $389 million (2009: $390 million) of assets under management. Arrangements are in place for the asset management activities to be managed separately from the life operations of the Group.

Tyndall Investment Management New Zealand Limited (Tyndall) operates as the investment manager for the funds of external clients and the New Zealand subsidiaries, superannuation schemes and unit trusts of the Group. Tyndall manages 21 (2009: 15) unit trusts with a combined total of $1,042 million (2009: $808 million) of assets under management. Tyndall had total funds under management of $2,860 million (2009: $2,756 million). The funds management activities of Tyndall are segregated from the settlement, title and custody of its clients' funds.

**Trustee activities**

The Group undertakes the following trustee activities.

Suncorp Portfolio Services Limited is trustee for the following superannuation funds and pooled superannuation trusts (the Trusts); (i) Suncorp Master Trust incorporating the following divisions: Asteron Life Superannuation Fund, Asteron Superannuation Fund, Connelly Temple Public Superannuation Fund, Optimum Superannuation Master Plan, Optimum Professional Superannuation Plan, Suncorp Personal Superannuation Fund, Tyndall Superannuation Plan and WealthSmart; (ii) Suncorp Easy Super; (iii) Promina Group Staff Superannuation Fund; (iv) Optimum Pooled Superannuation Trust; and (v) Tyndall Pooled Superannuation Trust.

As at 30 June 2010, the funds under administration by Suncorp Portfolio Services Limited was $4,716 million (2009: $1,634 million).

SIS Super Pty Ltd acts as the trustee for the Suncorp Staff Superannuation Fund. As at 30 June 2010, funds under administration total $703 million (2009: $642 million).

The New Zealand Guardian Trust Company Limited (NZGT) is a trustee company constituted under its own Act of Parliament and is empowered to act as an executor, trustee, agent, manager or custodian as well as a trustee for unit trusts, KiwiSaver schemes, debt securities and securitisation structures. NZGT had $2,831 million (2009: $3,046 million) of assets under administration and $43,014 million (2009: $47,876 million) securities supervised.

Asteron Retirement Investment Limited and Asteron Trust Services Limited act as trustees or managers for a number of wholesale, superannuation and investment funds. The assets and liabilities of these trusts and funds are not consolidated in the financial statements as the Group does not control these entities. Assets held under trusteeship as at 30 June 2010 totalled $344 million (2009: $348 million).

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

**Mortgage investments**

A special purpose fund, GTFM Mortgage Fund (GTFM), was set up in June 2008 to purchase part of the mortgage portfolio of the NZGT Wholesale Mortgage Fund (GIF5) in September 2008. As at 30 June 2010, the GTFM has mortgage loan investments of $85 million (2009: $154 million). A $72 million (2009: $128 million) drawdown facility with ANZ Bank was in place at 30 June 2010, of which $72 million (2009: $128 million) was utilised. The facility automatically reduces with each loan repayment and therefore equates to the outstanding loan balance at any point in time. Receipts from the mortgage portfolio are used to pay the interest and principal commitments due on the facility and other administration expenses. The facility is secured over the assets of the fund and up to $24 million (2009: $24 million) of the assets of the Asteron Life Limited (New Zealand) shareholder fund.

## 40(e) Disaggregated information by fund

The Group's life insurance business is conducted through Suncorp Life & Superannuation Limited and Asteron Life Limited in Australia and Asteron Life Limited in New Zealand. Under the Australian Life Act, life insurance business is conducted within one or more separate Statutory Funds, which are distinguished from each other and from the shareholder funds. The financial reports of the Australian life insurers prepared in accordance with AASB 1038 (and which are lodged with the relevant Australian regulators) show all major components of the financial statements disaggregated between the various life insurance Statutory Funds and their shareholder funds and as well as between investment linked business and those relating to non-investment linked businesses.

## 40. Specific disclosures – Life (continued)

### 40(f) Solvency requirements of the Life Insurance Statutory Funds

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

For Australia, the methodology and bases for determining solvency requirements are in accordance with 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*.

For New Zealand, FRS-34 requires companies to disclose the amount of equity retained as solvency reserves. This amount has been calculated as at 30 June 2010 in accordance with Professional Standard 5.01 (PS5.01) issued by the New Zealand Society of Actuaries.

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

| | Suncorp Life & Superannuation Limited | | Asteron Life Limited (Australia) | | Asteron Life Limited (New Zealand) | |
|---|---|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Solvency requirement** | | | | | | |
| Minimum termination value | **3,345** | 3,374 | **2,575** | 2,405 | **381** | 383 |
| Gross policy liabilities ceded under reinsurance | **92** | 84 | **222** | 213 | **13** | 13 |
| Other liabilities | **87** | 77 | **153** | 153 | **60** | 53 |
| Solvency reserve | **217** | 201 | **128** | 137 | **59** | 59 |
| **Solvency requirement** | **3,741** | 3,736 | **3,078** | 2,908 | **513** | 508 |
| **Assets available for solvency reserve** | | | | | | |
| Surplus or deficit (if any) of net policy liabilities relative to net minimum termination value | **(128)** | (153) | **(759)** | (627) | **(159)** | (145) |
| Net assets | **320** | 309 | **997** | 867 | **265** | 234 |
| Liability for policyowner retained profits at the end of the financial year | **387** | 380 | **3** | 4 | **14** | 13 |
| | **579** | 536 | **241** | 244 | **120** | 102 |
| Solvency reserve (%) | **6.3** | 5.8 | **4.7** | 5.4 | **13.4** | 13.5 |
| Coverage of solvency reserve (times) | **2.7** | 2.7 | **1.9** | 1.8 | **2.0** | 1.7 |

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

## 40(g) Life risk management

The Group has in place a structured risk management framework for the Life business to manage risk including insurance, credit, market and liquidity risks. For the Life Companies the framework includes a Risk Management Strategy which is a strategic document that describes the accountabilities, systems, processes and reporting used to manage risk in the Life Companies.

The Life Companies' Boards have 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 portfolios within any risk appetite or parameters established by the Life Companies' Boards.

Suncorp Life & Superannuation Limited 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. As part of an infrastructure change the funds' portfolios have been restructured to improve alignment with the new design of the Statutory Fund. 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.

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

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

The Group has an approved Risk Management Strategy which describes the Group's risk management framework and identifies the policies, procedures and controls that the Group has in place to meet the requirements of the life Prudential Standard (LPS 220) as issued by APRA. The risk management framework meets the risk policy of the Group and is consistent with the Australian Standard on Risk Management (AS/NZS 4360).

The Life Companies have an approved Risk Management Statement which has been accepted by APRA as appropriate guidelines for the investment of the Life Companies' funds including the use of derivatives. More detailed discussion on this is contained in note 42.

### Insurance risk

#### *Risk management objectives and policies for mitigating insurance risk*

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

In an effort to protect and improve shareholder value, the Group manages its exposure to risks so that it can react in a timely manner to changes in financial markets, insurance cycles, and economic and political environments. Risk exposures are managed using various 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 Life Companies receive advice from the Appointed Actuary, in accordance with APRA Prudential Standard LPS 310 and from 1 July 2010, LPS 320. Similar practices are adopted for ALLNZ, with advice provided by the Company Actuary. 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 New Zealand actuarial professional standards and 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.

## 40. Specific disclosures – Life (continued)

### 40(g) Life risk management (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 Group depend.

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

***Claims management***

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

***Concentrations of insurance risk***

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

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

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

The Group's group life portfolio includes an industry fund that offers death and total permanent disability (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 SLSL to a higher risk of loss in the event of an accident affecting the location where the insured employees work. The Group examines its exposure to such employers on a case-by-case basis to ascertain the need for 'catastrophe' excess of loss reinsurance.

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***

*Ceding of risk and reinsurance security*

As mentioned above, the Group cedes to specialist reinsurance companies a proportion of its portfolio or certain types of insurance risk. This serves primarily to reduce the net liability on large risks (related to either an individual or group exposure), obtain greater diversification of insurance risks and provide protection against large losses. The reinsurers have strong Standard & Poor's credit ratings from AAA to AA-. The Group 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 Life entities use 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 Group 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.

## 40. Specific disclosures – Life (continued)

### 40(g) Life risk management (continued)

**Credit risk (continued)**

The following tables provide information regarding the aggregate credit risk exposure of the Group's Life businesses 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 – BBB are classified non-investment grade.

| | Credit rating | | | | | Other not rated | Investment-linked business[1] | Total |
|---|---|---|---|---|---|---|---|---|
| | AAA $m | AA $m | A $m | BBB $m | Non-investment grade $m | $m | $m | $m |
| **2010** | | | | | | | | |
| Cash and cash equivalents | **–** | **160** | **99** | **–** | **–** | **–** | **344** | **603** |
| Interest-bearing financial assets | **1,243** | **624** | **834** | **33** | **7** | **158** | **545** | **3,444** |
| Loans, advances and other receivables | **3** | **43** | **11** | **–** | **–** | **233** | **37** | **327** |
| Gross policy liabilities ceded under reinsurance | **12** | **204** | **111** | **–** | **–** | **–** | **–** | **327** |
| Derivative financial instruments | **–** | **3** | **8** | **–** | **–** | **1** | **1** | **13** |
| | **1,258** | **1,034** | **1,063** | **33** | **7** | **392** | **927** | **4,714** |
| **2009** | | | | | | | | |
| Cash and cash equivalents | – | 74 | 110 | – | – | 1 | 73 | 258 |
| Interest-bearing financial assets | 1,202 | 963 | 923 | 39 | 7 | 55 | 497 | 3,686 |
| Loans, advances and other receivables | 17 | 46 | 32 | 1 | – | 186 | 38 | 320 |
| Gross policy liabilities ceded under reinsurance | (21) | 225 | 107 | – | – | – | – | 311 |
| Derivative financial instruments | – | 2 | – | – | – | – | 2 | 4 |
| | 1,198 | 1,310 | 1,172 | 40 | 7 | 242 | 610 | 4,579 |

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 statement of financial position represents the current risk exposure, but not the maximum risk exposure. The face value and fair value of derivatives are illustrated in note 42.

The following table provides information regarding the carrying value of the Life 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.

| | Neither past due nor impaired | Past due but not impaired | | | | Impaired | Total |
|---|---|---|---|---|---|---|---|
| | | 0-3 mths | 3-6 mths | 6-12 mths | > 12 mths | | |
| | $m | $m | $m | $m | $m | $m | $m |
| **2010** | | | | | | | |
| Premiums outstanding | **5** | **14** | **–** | **–** | **–** | **–** | **19** |
| Investment revenue receivable | **11** | **–** | **–** | **–** | **–** | **–** | **11** |
| Investment settlements | **59** | **–** | **–** | **–** | **–** | **–** | **59** |
| Reinsurance recoveries receivable | **49** | **11** | **4** | **–** | **1** | **–** | **65** |
| Gross policy liabilities ceded under reinsurance | **327** | **–** | **–** | **–** | **–** | **–** | **327** |
| Other | **119** | **3** | **3** | **1** | **3** | **28** | **157** |
| | **570** | **28** | **7** | **1** | **4** | **28** | **638** |
| **2009** | | | | | | | |
| Premiums outstanding | 4 | 17 | – | – | – | – | 21 |
| Investment revenue receivable | 4 | – | – | – | – | – | 4 |
| Investment settlements | 33 | – | – | – | – | – | 33 |
| Reinsurance recoveries receivable | 56 | 17 | 1 | 1 | 2 | – | 77 |
| Gross policy liabilities ceded under reinsurance | 311 | – | – | – | – | – | 311 |
| Other | 142 | 6 | 5 | 6 | 4 | 41 | 204 |
| | 550 | 40 | 6 | 7 | 6 | 41 | 650 |

### 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 each life company.

Management of market risk is most critical for products which involve the investment of significant amounts of money to meet future liabilities and where the returns on those assets either accrue to the shareholder or are not necessarily able to be passed on to policyowners in a timely manner. This includes, for example, assets backing disability income reserves for open claims and participating business. For some non-participating insurance products, such as unit-linked products, market risks are passed on to the policyowner, although as noted, the shareholder's fee revenue may be adversely affected by market falls.

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 Group 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.

## 40. Specific disclosures – Life (continued)

### 40(g) Life risk management (continued)

**Market risk (continued)**

***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 income statement in accordance with the accounting policies discussed in note 3(i).

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

The sensitivity of profit and loss after tax 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. Given the significant volatility experienced in the market during the last two years, a movement of 200 basis points (2009: 200 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

| | **2010** | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Exposure at Jun-10** | **Movement in variable** | **Profit (loss) after tax** | **Equity reserves** | Exposure at Jun-09 | Movement in variable | Profit (loss) after tax | Equity reserves |
| | **$m** | **%** | **$m** | **$m** | $m | % | $m | $m |
| Interest-bearing investment securities | **1,959** | **+2** | **(75)** | **–** | 3,387 | +2 | (60) | – |
| (including derivative financial instruments) | | **–2** | **77** | **–** | | –2 | 63 | – |
| Loans, advances and receivables | **143** | **+2** | **2** | **–** | 209 | +2 | 3 | – |
| | | **–2** | **(2)** | **–** | | –2 | (3) | – |
| Deposits and short-term borrowings | **(72)** | **+2** | **(1)** | **–** | (128) | +2 | (2) | – |
| | | **–2** | **1** | **–** | | –2 | 2 | – |

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

The balance date measurement of the cash and cash equivalents is not sensitive to movements in interest rates and so a change in interest rates as at balance 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 on 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 Group invest in overseas assets. In the investment linked funds any investment returns, whether positive or negative, are passed on to the policyowners. Various guarantees are provided by the non-investment linked Statutory Funds, principally in relation to capital and declared interest. The relevant Statutory Funds maintain reserves in accordance with APRA Prudential Standards (local actuarial professional standards for New Zealand) to meet the risk associated with diminution of value associated with foreign exchange risk.

The Life Companies invest a portion of investment assets in global equities 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 Life Companies invest in, including Suncorp Investment Management Global Macro Tactical Asset Allocation Trust and Suncorp Investment Management World Equities Trust, enter into forward foreign exchange and future contracts to aim to provide capital appreciation.

The Group's exposure to foreign currency risk in the Life business 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 has been performed on the same basis for 2009.

| | **2010** | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Exposure at Jun-10** | **Movement in variable** | **Profit (loss) after tax** | **Equity reserves** | Exposure at Jun-09 | Movement in variable | Profit (loss) after tax | Equity reserves |
| | **$m** | **%** | **$m** | **$m** | $m | % | $m | $m |
| AUD | **15** | **+10** | **1** | **–** | 12 | +10 | 1 | – |
| | | **–10** | **(1)** | **–** | | –10 | (1) | – |
| CHF | **–** | **+10** | **–** | **–** | 31 | +10 | (2) | – |
| | | **–10** | **–** | **–** | | –10 | 2 | – |
| Euro | **40** | **+10** | **2** | **–** | 35 | +10 | (2) | – |
| | | **–10** | **(3)** | **–** | | –10 | 2 | – |
| GBP | **29** | **+10** | **2** | **–** | 21 | +10 | (1) | – |
| | | **–10** | **(3)** | **–** | | –10 | 1 | – |
| HKD | **–** | **+10** | **–** | **–** | 35 | +10 | (2) | – |
| | | **–10** | **–** | **–** | | –10 | 3 | – |
| JPY | **27** | **+10** | **2** | **–** | 18 | +10 | (1) | – |
| | | **–10** | **(3)** | **–** | | –10 | 2 | – |
| USD | **126** | **+10** | **7** | **–** | 183 | +10 | (12) | – |
| | | **–10** | **(10)** | **–** | | –10 | 15 | – |
| Other | **1** | **+10** | **–** | **–** | 35 | +10 | (2) | – |
| | | **–10** | **–** | **–** | | –10 | 3 | – |

After tax impact on profit (loss) uses corporate tax rate of 30%. Actual after tax impact for Life 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(i), these investments are measured at fair value at each balance date and changes in fair value are immediately reflected in the income statement. These principles also apply to investments through unitised vehicles.

Downturns in equity markets would impact the current and future results of the Group. During the prior financial year, the Life business reduced its Australian and international equities portfolios. Equity risk is managed by incorporating a diverse holding of Australian and overseas equities (whether direct or through unitised vehicles) and through the controlled use of derivative financial instruments, as discussed in note 42.

The potential impact of movements in the market value of listed equities at balance date on the Group's Life 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 two years, a movement of 25% (2009: 25%) 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.

## 40. Specific disclosures – Life (continued)

### 40(g) Life risk management (continued)

**Market risk (continued)**

***Other market risks (continued)***

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Exposure at Jun-10 | Movement in variable | Profit (loss) after tax | Equity reserves | Exposure at Jun-09 | Movement in variable | Profit (loss) after tax | Equity reserves |
| | $m | % | $m | $m | $m | % | $m | $m |
| Australian equities | **1,624** | **+25** | **285** | **–** | 1,511 | +25 | 264 | – |
| | | **–25** | **(285)** | **–** | | –25 | (266) | – |
| International equities | **771** | **+25** | **135** | **–** | 617 | +25 | 112 | – |
| | | **–25** | **(135)** | **–** | | –25 | (112) | – |

After tax impact on profit (loss) uses corporate tax rate of 30%. Actual after tax impact for Life 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 provide substantial liquidity to meet claims payments and associated expenses as they arise. Consequently, there is greater flexibility in investment strategies while managing investments to provide sufficient liquidity to meet the claims as they become due, based on actuarial assessments.

The table below summarises the maturity profile of financial liabilities of the Life business based on the remaining undiscounted contractual obligations. It also includes the maturity profile for insurance and investment contract policy liabilities based on the discounted estimated timing of net cash outflows.

| | Carrying amount | 1 year or less | 1 to 5 years | Over 5 years | No term | Investment linked[1] | Total cash flows |
|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m |
| **2010** | | | | | | | |
| Amounts due to reinsurers | **17** | **17** | **–** | **–** | **–** | **–** | **17** |
| Trade creditors and accrued expenses | **226** | **197** | **29** | **–** | **–** | **–** | **226** |
| Investment settlements | **4** | **4** | **–** | **–** | **–** | **–** | **4** |
| Interest rate swaps and futures – net settled | **3** | **3** | **–** | **–** | **–** | **–** | **3** |
| Outstanding claims liabilities | **142** | **98** | **–** | **–** | **44** | **–** | **142** |
| Deposits and short-term borrowings | **90** | **90** | **–** | **–** | **–** | **–** | **90** |
| Other liabilities | **8** | **8** | **–** | **–** | **–** | **–** | **8** |
| Insurance contract policy liabilities | **1,584** | **247** | **640** | **697** | **–** | **–** | **1,584** |
| Investment contract policy liabilities | **3,672** | **3** | **–** | **–** | **–** | **3,669** | **3,672** |
| Unvested policyowner benefits | **404** | **4** | **–** | **14** | **386** | **–** | **404** |
| Managed funds units on issue | **422** | **422** | **–** | **–** | **–** | **–** | **422** |
| | **6,572** | **1,093** | **669** | **711** | **430** | **3,669** | **6,572** |
| **2009** | | | | | | | |
| Amounts due to reinsurers | 15 | 15 | – | – | – | – | 15 |
| Trade creditors and accrued expenses | 115 | 115 | – | – | – | – | 115 |
| Investment settlements | 15 | 15 | – | – | – | – | 15 |
| Outstanding claims liabilities | 137 | 98 | – | – | 39 | – | 137 |
| Deposits and short-term borrowings | 130 | 130 | – | – | – | – | 130 |
| Other liabilities | 14 | 5 | 8 | – | – | 1 | 14 |
| Insurance contract policy liabilities | 1,813 | 407 | 673 | 733 | – | – | 1,813 |
| Investment contract policy liabilities | 3,423 | 4 | – | – | – | 3,419 | 3,423 |
| Unvested policyowner benefits | 397 | 4 | – | – | 393 | – | 397 |
| Managed funds units on issue | 491 | 491 | – | – | – | – | 491 |
| | 6,550 | 1,284 | 681 | 733 | 432 | 3,420 | 6,550 |

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.

## 40(h) Critical accounting estimates and judgements

The key methodologies and assumptions for determining fair values for financial instruments are discussed in note 41. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of other assets and liabilities within the next financial year are discussed below.

### Insurance contract liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles and standards. The methodology takes into account the risks and uncertainties of the particular classes of life insurance businesses written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

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

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

In addition, factors such as regulation, competition, interest rates, taxes, security market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Life Companies' share experience on mortality, morbidity, persistency and investment results with its customers, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 40(i).

### 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 Life Companies may not receive amounts due to them and these amounts can be reliably measured.

### Investment contracts – deferred acquisition costs and deferred revenue

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

## 40(i) Actuarial assumptions and methods – policy liabilities

For general assumptions relating to life insurance gross policy liabilities, refer note 40(c).

### Sensitivity analysis

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

## 40. Specific disclosures – Life (continued)

### 40(i) Actuarial assumptions and methods – policy liabilities (continued)

**Sensitivity analysis (continued)**

| 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 shareholder equity. For lifetime annuities greater mortality rates would lead to a shorter duration of regular payments, and therefore increasing profit and shareholder equity. |
| Morbidity rates (disability income) | The cost of health-related claims depends on both the incidence of policyowners becoming disabled and the duration which they remain disabled. Higher than expected incidence and longer durations would increase claim costs, reducing profit and shareholder equity. |
| Discontinuance | An increase in discontinuance rates at earlier durations has a negative effect, reducing profit and shareholder equity, as it affects the ability to recover acquisition expenses and commissions. |

For life insurance contracts which are accounted for under 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.

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

| | | Change in insurance contract liability (net) | Change in insurance contract liability (gross) | Profit (loss) after tax (net) | Profit (loss) after tax (gross) |
|---|---|---|---|---|---|
| Variable | Change[1] | $m | $m | $m | $m |
| Maintenance expense | + 10% increase | 2 | 2 | (2) | (2) |
| Mortality and lump sum morbidity | + 10% increase | – | – | – | – |
| Morbidity – disability income | + 10% increase in incidence and decrease in recovery rates | 81 | 178 | (81) | (178) |
| Discontinuance rates | + 10% increase | 3 | 11 | (3) | (11) |

1 Change is an absolute, rather than relative, change.

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

| | Effect on future profit margins (shareholder) increase (decrease) | Effect on policy liabilities increase (decrease) |
|---|---|---|
| Assumption category | $m | $m |
| Discount rates (risk business)[1] | 11 | (33) |
| Discount rates (participating business) | (1) | – |
| Mortality and morbidity | 4 | – |
| Morbidity income | 24 | 3 |
| Lapse and surrender rates | (67) | – |
| Indexation takeup rate | 3 | – |
| Maintenance expenses | 17 | (2) |
| Other | (2) | – |

1 Effects for risk business is shown gross of tax.

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.

## 41. Financial instruments

The exposure to risks that arise in the normal course of the Group's business is described in note 37. Derivative financial instruments are detailed in note 42.

### 41(a) Fair values

Fair values are calculated at a point in time and require assumptions and matters of judgement regarding economic conditions, loss experience, risk characteristics associated with particular financial instruments and other factors. Therefore, they cannot be determined with precision and changes in the assumptions could have a material impact on the amount estimated.

The Group classifies financial instruments measured at fair value using the fair value hierarchy in order to reflect the significance of inputs used in their estimation:

- Level 1 – inputs that are (unadjusted) quoted prices 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 or indirectly; or
- Level 3 – inputs for the financial instruments that are not based on observable market data.

The classification within the fair value hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement. The determination is completed on an instrument by instrument basis.

Fair values of financial instruments at balance date are as follows. Classification of financial instruments measured at fair value by fair value hierarchy levels are disclosed in the respective notes to the consolidated financial statements.

| | Consolidated | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | | 2009 | | **2010** | | 2009 | |
| | **Carrying value** | **Fair value** | Carrying value | Fair value | **Carrying value** | **Fair value** | Carrying value | Fair value |
| | **$m** | **$m** | $m | $m | **$m** | **$m** | $m | $m |
| **Financial assets** | | | | | | | | |
| Cash and cash equivalents | **883** | **883** | 2,356 | 2,356 | **329** | **329** | 1,367 | 1,367 |
| Receivables due from other banks | **232** | **232** | 118 | 118 | **232** | **232** | 118 | 118 |
| Trading securities | **8,233** | **8,233** | 6,694 | 6,694 | **8,233** | **8,233** | 6,694 | 6,694 |
| Investment securities | **21,091** | **21,091** | 20,330 | 20,330 | **3,118** | **3,118** | 3,933 | 3,933 |
| Loans, advances and other receivables | **53,724** | **53,896** | 56,753 | 57,027 | **50,150** | **50,640** | 52,962 | 53,175 |
| Due from subsidiaries | **–** | **–** | – | – | **1,883** | **1,883** | 2,866 | 2,866 |
| Other financial assets | **329** | **329** | 285 | 285 | **287** | **287** | 254 | 254 |
| **Financial liabilities** | | | | | | | | |
| Deposits and short-term borrowings | **34,098** | **34,207** | 37,866 | 37,950 | **34,203** | **34,176** | 37,847 | 37,930 |
| Payables due to other banks | **28** | **28** | 29 | 29 | **28** | **28** | 29 | 29 |
| Payables and other liabilities | **1,874** | **1,874** | 2,345 | 2,345 | **814** | **814** | 1,258 | 1,258 |
| Due to subsidiaries | **–** | **–** | – | – | **5,585** | **5,585** | 154 | 154 |
| Managed funds units on issue | **437** | **437** | 506 | 506 | **–** | **–** | – | – |
| Securitisation liabilities | **4,710** | **5,149** | 5,711 | 5,470 | **–** | **–** | – | – |
| Debt issues | **16,759** | **17,045** | 15,661 | 15,761 | **17,053** | **17,330** | 16,010 | 16,112 |
| Subordinated notes | **2,182** | **2,231** | 2,312 | 2,060 | **1,492** | **1,492** | 1,583 | 1,566 |
| Preference shares | **869** | **845** | 865 | 781 | **869** | **845** | 865 | 781 |

The fair value of derivative financial instruments is disclosed in note 42.

The estimated fair values disclosed do not include the value of assets and liabilities that are not considered financial instruments.

The following methodologies and assumptions were used to determine the fair value estimates.

## 41. Financial instruments (continued)

### 41(a) Fair values (continued)

**Financial assets**

As cash and cash equivalents and receivables due from other banks are short-term in nature or are receivable on demand, their carrying value approximates their fair value. Investment securities are carried at listed market value which equates to fair value.

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

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

**Financial liabilities**

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

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

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

**Contingent financial liabilities and credit commitments**

The Group has potential financial liabilities that may arise from certain contingencies disclosed in note 45. As explained in that note, no material losses are anticipated in respect of any of those contingencies.

**Derivative financial instruments**

The net fair value of derivative contracts was obtained from quoted market prices, discounted cash flow models, broker and dealer price quotations or option pricing models as appropriate.

### 41(b) Hedging

**Hedging of fluctuations in interest rates**

Interest rate swaps designated as hedges are classified as either cash flow hedges or fair value hedges and are measured at fair value in the statement of financial position.

***Banking activities***

The Bank seeks to minimise volatility in net interest income through use of interest rate derivatives, primarily vanilla interest rate swaps. The swaps are managed over a three year period which is approximately the average loan life.

At balance date, the Bank had three (2009: two) swaps designated as a fair value hedge of a fixed rate subordinated note issue. All other interest rate swaps designated as hedges are cash flow hedges. The swaps designated as cash flow hedges are hedges of either variable rate mortgages or variable rate short-term debt.

***General Insurance activities***

At balance date the General Insurance entities have interest rate swaps designated as hedges and classified as fair value hedges of fixed rate subordinated note issues. All other interest rate derivatives are accounted for as fair value through profit or loss.

**Hedging of fluctuations in foreign currency rates**

The Bank hedges its exposure to fluctuations in foreign exchange rates through the use of derivatives in the foreign exchange market. The currencies giving rise to this risk are primarily US Dollars, Euro and Pounds Sterling.

The Bank hedges its offshore debt issues using cross currency interest rate swaps and foreign exchange swaps. In respect of other financial assets and liabilities held in currencies other than AUD, the Bank ensures that the net exposure is kept to an acceptable level through participation in the spot and forward markets. Hedge accounting has been adopted by the General Insurance entities for the cross currency interest rate swaps hedging the fair value translation risk arising on fixed rate subordinated note issues.

All cross currency interest rate swaps entered into by the Group are designated as hedges using the split approach. Under this approach the benchmark rate component of the swap is accounted for as a fair value hedge and the margin component as a cash flow hedge.

The Bank has elected to fair value its Euro Commercial Paper portfolio through the income statement on the basis that it is economically hedged by forward foreign exchange contracts. Both the changes in the fair value of the forward contracts and the debt issue are recognised in the income statement. The fair value of forward foreign exchange contracts used as economic hedges of monetary liabilities in foreign currencies where hedge accounting is not applied as at 30 June 2010 was $37 million (30 June 2009: $49 million).

| | Consolidated | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | | 2009 | | **2010** | | 2009 | |
| | **Fair value hedges** | **Cash flow hedges** | Fair value hedges | Cash flow hedges | **Fair value hedges** | **Cash flow hedges** | Fair value hedges | Cash flow hedges |
| | **$m** | **$m** | $m | $m | **$m** | **$m** | $m | $m |
| **Hedging of fluctuations in interest rates** | | | | | | | | |
| Notional value of interest rate swaps designated as hedges | **531** | **18,776** | 435 | 18,653 | **300** | **18,776** | 200 | 18,653 |
| Fair value: | | | | | | | | |
| net receive interest rate swaps | **13** | **61** | 12 | 163 | **5** | **61** | 8 | 163 |
| net pay interest rate swaps | **–** | **(227)** | – | (459) | **–** | **(227)** | – | (459) |
| | **13** | **(166)** | 12 | (296) | **5** | **(166)** | 8 | (296) |

| | **Split approach** | Split approach | **Split approach** | Split approach |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Hedging of fluctuations in foreign exchange rates** | | | | |
| Notional value of cross currency swaps designated as hedges | **15,546** | 14,984 | **14,185** | 13,186 |
| Fair value: | | | | |
| net receive cross currency swaps | **287** | 119 | **287** | 62 |
| net pay cross currency swaps | **(1,865)** | (860) | **(1,688)** | (793) |
| | **(1,578)** | (741) | **(1,401)** | (731) |

The Bank also hedges against the foreign currency exposure that results from the government guarantee expense. The underlying exposure is calculated as the present value of the 1% fee charged to the Bank for those selected offshore liabilities, over the term of the life of the liabilities. The hedge is a cash flow hedge using foreign currency positions with foreign currency translation movements deferred to equity, and released to the income statement as the fee expense is incurred. As at 30 June 2010 the unrealised loss from foreign currency fluctuation deferred to equity was $29 million. During the current financial year the Bank deferred to equity $22 million, and released $13 million of foreign currency loss previously deferred to equity to the income statement.

## 41. Financial instruments (continued)

### 41(b) Hedging (continued)

**Hedging of fluctuations in foreign currency rates (continued)**

Cash flows relating to the cash flow hedges are expected to impact the income statement in the following periods:

| | Consolidated | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 0 to 12 months | 1 to 5 years | Over 5 years | Total expected cash flows | 0 to 12 months | 1 to 5 years | Over 5 years | Total expected cash flows |
| | $m | $m | $m | $m | $m | $m | $m | $m |
| **2010** | | | | | | | | |
| Forecast receivable cash flows | **717** | **489** | **–** | **1,206** | **717** | **489** | **–** | **1,206** |
| Forecast payable cash flows | **(791)** | **(565)** | **–** | **(1,356)** | **(791)** | **(565)** | **–** | **(1,356)** |
| | **(74)** | **(76)** | **–** | **(150)** | **(74)** | **(76)** | **–** | **(150)** |
| **2009** | | | | | | | | |
| Forecast receivable cash flows | 719 | 877 | – | 1,596 | 719 | 877 | – | 1,596 |
| Forecast payable cash flows | (842) | (1,031) | – | (1,873) | (842) | (1,031) | – | (1,873) |
| | (123) | (154) | – | (277) | (123) | (154) | – | (277) |

## 42. Derivative financial instruments

A derivative financial instrument is a financial instrument that provides the holder with the ability to participate in some or all of the price changes of a referenced financial instrument, commodity, index of prices, or the price of any specific item. It usually does not require the holder to own or deliver the referenced item. Derivatives enable holders to modify or eliminate risks by transferring them to other parties willing to assume those risks. As at 30 June 2010 there was no significant counterparty exposure to any one single entity, other than normal clearing house exposures associated with dealings through recognised exchanges.

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

The notional value is the face value of the underlying instrument which 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 varies over time depending on movements in interest and exchange rates and hedging strategies used.

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | |
| | | **Fair value** | | | Fair value | |
| | **Notional value** | **Asset** | **Liability** | Notional value | Asset | Liability |
| | **$m** | **$m** | **$m** | $m | $m | $m |
| *Exchange rate related contracts* | | | | | | |
| Forward foreign exchange contracts | **3,533** | **74** | **(31)** | 8,155 | 166 | (213) |
| Cross currency swaps | **15,546** | **287** | **(1,865)** | 14,984 | 119 | (860) |
| Currency options | **44** | **1** | **(1)** | 44 | 3 | (3) |
| | **19,123** | **362** | **(1,897)** | 23,183 | 288 | (1,076) |
| *Interest rate related contracts* | | | | | | |
| Forward rate agreements | **7,050** | **–** | **(1)** | 2,800 | – | – |
| Interest rate swaps | **62,789** | **429** | **(556)** | 61,672 | 253 | (477) |
| Interest rate futures | **4,574** | **38** | **(1)** | 3,438 | 10 | (1) |
| Interest rate options | **2,103** | **4** | **(3)** | 1,296 | 1 | (1) |
| | **76,516** | **471** | **(561)** | 69,206 | 264 | (479) |
| *Equity contracts* | | | | | | |
| Equity futures | **43** | **–** | **(3)** | 84 | – | (1) |
| | **43** | **–** | **(3)** | 84 | – | (1) |
| **Total derivative exposures** | **95,682** | **833** | **(2,461)** | 92,473 | 552 | (1,556) |
| | | | | | | |
| **Fair values of derivatives classified by fair value hierarchy**[1] | | | | | | |
| Level 1 | | **2** | **(1)** | | | |
| Level 2 | | **783** | **(2,292)** | | | |
| Level 3 | | **48** | **(168)** | | | |
| **Total derivatives measured at fair value** | | **833** | **(2,461)** | | | |

1 The Group classifies fair values of financial instruments using the fair value hierarchy in order to reflect the significance of inputs used in their estimation. Description of the fair value hierarchy can be found in note 41(a). The Group has elected not to provide comparative information for the fair value hierarchy disclosures in accordance with the transitional relief as permitted in the amendments.

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

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

| | Consolidated | |
|---|---|---|
| | **Asset** | **Liability** |
| | **2010 $m** | **2010 $m** |
| **Derivatives classified as Level 3 in the fair value hierarchy** | | |
| Balance at the beginning of the financial year | **97** | **(46)** |
| Change in fair value recognised in equity | **(72)** | **(10)** |
| Other movements | **23** | **(112)** |
| Balance at the end of the financial year | **48** | **(168)** |
| **Derivatives classified as Level 3 in the fair value hierarchy** | | |
| Included within the above reconciliation are the following total gains or losses in respect of assets held at the end of the financial year: | | |
| Change in fair value recognised in equity | **(72)** | **(10)** |
| Other movements | **23** | **(112)** |

## 42. Derivative financial instruments (continued)

The Group believes that its fair value estimates are appropriate. Changing one or more of the inputs to reasonably possible alternative assumptions would not result in material changes to the income statement in respect of derivative financial instruments classified as Level 3 in the fair value hierarchy.

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | |
| | | **Fair value** | | | Fair value | |
| | **Notional value** | **Asset** | **Liability** | Notional value | Asset | Liability |
| | **$m** | **$m** | **$m** | $m | $m | $m |
| *Exchange rate related contracts* | | | | | | |
| Forward foreign exchange contracts | **3,256** | **66** | **(29)** | 7,907 | 164 | (213) |
| Cross currency swaps | **14,185** | **287** | **(1,688)** | 13,186 | 62 | (793) |
| Currency options | **44** | **1** | **–** | 44 | 3 | (3) |
| | **17,485** | **354** | **(1,717)** | 21,137 | 229 | (1,009) |
| *Interest rate related contracts* | | | | | | |
| Forward rate agreements | **7,050** | **–** | **(1)** | 2,800 | – | – |
| Interest rate swaps | **62,392** | **425** | **(557)** | 57,602 | 182 | (457) |
| Interest rate futures | **2,868** | **2** | **–** | 2,484 | 9 | – |
| Interest rate options | **532** | **4** | **(3)** | 1,287 | 1 | (1) |
| | **72,842** | **431** | **(561)** | 64,173 | 192 | (458) |
| **Total derivative exposures** | **90,327** | **785** | **(2,278)** | 85,310 | 421 | (1,467) |
| | | | | | | |
| **Fair values of derivatives classified by fair value hierarchy**[1] | | | | | | |
| Level 1 | | **2** | **–** | | | |
| Level 2 | | **735** | **(2,239)** | | | |
| Level 3 | | **48** | **(39)** | | | |
| **Total derivatives measured at fair value** | | **785** | **(2,278)** | | | |

1 The Group classifies fair values of financial instruments using the fair value hierarchy in order to reflect the significance of inputs used in their estimation. Description of the fair value hierarchy can be found in note 41(a). The Group has elected not to provide comparative information for the fair value hierarchy disclosures in accordance with the transitional relief as permitted in the amendments.

The valuation methodology for investment securities classified within Level 3 of the fair value hierarchy is based on the relative trading discount to face value.

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

| | Company | |
|---|---|---|
| | **Asset** | **Liability** |
| | **2010 $m** | **2010 $m** |
| **Derivatives classified as Level 3 in the fair value hierarchy** | | |
| Balance at the beginning of the financial year | **25** | **(28)** |
| Other movements | **23** | **(11)** |
| Balance at the end of the financial year | **48** | **(39)** |
| **Derivatives classified as Level 3 in the fair value hierarchy** | | |
| Included within the above reconciliation are the following total gains or losses in respect of assets held at the end of the financial year: | | |
| Other movements | **23** | **(11)** |

The Group believes that its fair value estimates are appropriate. Changing one or more of the inputs to reasonably possible alternative assumptions would not result in material changes to the income statement in respect of derivative financial instruments classified as Level 3 in the fair value hierarchy.

### 42(a) Banking activities

The Banking group uses derivative financial instruments both for non-trading activities (balance sheet management) and trading activities.

#### Non-trading activities

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

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

The risk management framework in relation to non-traded market risk is detailed in note 38(c).

#### Trading activities

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

The risk management framework in relation to traded market risk is detailed in note 38(c).

### 42(b) Insurance 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 for a similar role for equity exposures, and foreign exchange derivatives are used to manage any foreign exchange risks.

The use of derivatives is consistent with the objectives of the overall investment strategies of the investment portfolios, and one of the means by which these strategies are implemented. Derivatives will only be used for the reasons of efficiency, arbitrage and risk reduction. The Risk Management Statements, approved by the Board of Directors, establish the basis on which derivative financial instruments may be used within the investment portfolios. The preparation and enforcement of the statements is a critical requirement for licensed insurers. The Risk Management Statements form the basis of the discussion in this note on derivative financial instruments. The Risk Management Statements and investment mandates prohibit the use of derivatives for speculative purposes or for leveraged trading. Leverage here is defined as creating a portfolio which would have sensitivity to an underlying economic or financial variable which is greater than could be achieved using only physical securities.

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

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

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

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

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 short falls. Counterparty risk procedures are in place for OTC type derivatives.

## 43. Fiduciary activities

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

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

## 44. Commitments

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

### 44(a) Credit commitments

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Notional amounts** | | | | |
| Guarantees entered into in the normal course of business | **287** | 349 | **284** | 346 |
| Commitments to provide loans and advances | **6,046** | 7,389 | **6,046** | 7,395 |
| | **6,333** | 7,738 | **6,330** | 7,741 |
| **Credit equivalent amounts** | | | | |
| Guarantees entered into in the normal course of business | **184** | 210 | **181** | 207 |
| Commitments to provide loans and advances | **1,457** | 2,105 | **1,457** | 2,104 |
| | **1,641** | 2,315 | **1,638** | 2,311 |

### 44(b) Operating lease commitments

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Aggregate future operating lease rentals contracted for but not provided in the financial statements are payable as follows: | | | | |
| Less than one year | **156** | 149 | **92** | 80 |
| Between one and five years | **359** | 401 | **216** | 223 |
| More than five years | **166** | 163 | **140** | 92 |
| | **681** | 713 | **448** | 395 |
| Representing: | | | | |
| Non-cancellable operating leases | **681** | 713 | **448** | 395 |
| | **681** | 713 | **448** | 395 |

The Group leases property under operating leases expiring from 1-12 years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria. Total future minimum sublease payments expected to be received under non-cancellable subleases as at 30 June 2010 for the Group is $2 million (2009: $3 million) and for the Company is $2 million (2009: $3 million).

## 44(c) Finance lease receivables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Gross investment in finance lease receivables:** | | | | |
| Less than one year | **61** | 116 | **1** | 1 |
| Between one and five years | **60** | 172 | **–** | – |
| More than five years | **–** | 4 | **–** | – |
| | **121** | 292 | **1** | 1 |
| Unearned future income on finance leases | **(11)** | (35) | **–** | – |
| **Net investment in finance lease receivables** | **110** | 257 | **1** | 1 |

Finance lease receivables are included in loans, advances and other receivables and represent leases of certain plant and equipment where the Company or a subsidiary is the lessor.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Net investment in finance lease receivables:** | | | | |
| Less than one year | **59** | 112 | **1** | 1 |
| Between one and five years | **51** | 143 | **–** | – |
| More than five years | **–** | 2 | **–** | – |
| | **110** | 257 | **1** | 1 |

## 44(d) Expenditure commitments

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| Expenditure for the acquistion of plant and equipment contracted for but not provided in the financial statements is payable as follows: | | | | |
| Less than one year | **37** | 51 | **2** | – |
| Between one and five years | **–** | – | **–** | – |
| More than five years | **–** | – | **–** | – |
| | **37** | 51 | **2** | – |

## 45. Contingent assets and liabilities

### 45(a) Contingent assets

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

### 45(b) Contingent liabilities

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

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

- The Group has given guarantees and undertakings in the ordinary course of business in respect to credit facilities and rental obligations. Note 44 sets out details of these guarantees.
- Certain subsidiaries act as trustee for various trusts. In this capacity, the subsidiaries are liable for the debts of the trusts and are entitled to be indemnified out of the trust assets for all liabilities incurred on behalf of the trusts.
- In the ordinary course of business the Group enters into various types of investment contracts that can give rise to contingent liabilities. It is not expected that any significant liability will arise from these types of transactions as any losses or gains are offset by corresponding gains or losses on the underlying exposures.
- Certain subsidiaries are potentially exposed to the Buyer of Last Resort (BOLR) clauses in certain adviser contracts. For the BOLR to be exercised, the following key conditions should be met by the adviser: (i) must retire from the industry, (ii) must have good compliance histories and reasonable systems and processes relative to business scale to get a full multiple, (iii) must have tried to sell externally for a period of six months or more. The maximum potential commitments (all BOLRs exercised at once) would be $44 million (2009: $35 million). One BOLR clause was exercised at 30 June 2010 for $1 million (2009: nil).
- The New Zealand Guardian Trust Company Limited, a subsidiary of the Group, has indemnified the Guardian CashPlus Mortgage Units Fund (GIF 35) for the capital amount of GIF 35's investment in the Guardian Mortgage Fund (GIF 2). The capital amount outstanding at 30 June 2010 was $25 million (2009: $42 million), and a provision for $4 million (2009: $3 million) has been recognised at 30 June 2010 to cover indemnified losses within GIF 2 based on information available at 30 June 2010.

## 46. Subsidiaries

### 46(a) Ultimate parent entity

The ultimate parent entity in the wholly-owned group is Suncorp-Metway Ltd.

### 46(b) Significant subsidiaries of Suncorp-Metway Ltd

| Subsidiaries | Class of shares | Country of incorporation | Equity holding 2010 % | 2009 % |
|---|---|---|---|---|
| **Banking entities** | | | | |
| APOLLO Series 2002-2 Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2003-1E Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2003-2 Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2004-1E Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2004-2 Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2005-1E Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2005-2 Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2006-1E Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2007-1E Trust | Units | Australia | **100** | 100 |
| APOLLO Warehouse Trust No.1 | Units | Australia | **100** | 100 |
| APOLLO Series 2008-1R Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2008-2P Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2008-3 Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2008-4 Trust | Units | Australia | **100** | 100 |
| APOLLO Series 2009-1 Trust | Units | Australia | **100** | – |
| APOLLO Series 2010-1 Trust | Units | Australia | **100** | – |
| Graham & Company Limited | Ordinary | Australia | **100** | 100 |
| Polaris Data Centre Unit Trust | Units | Australia | **100** | 100 |
| SME Management Pty Limited | Ordinary | Australia | **100** | 100 |
| Suncorp Corporate Services Pty Ltd (formerly Excelle Pty Ltd)[4] | Ordinary | Australia | **100** | 100 |
| Suncorp Metway Advances Corporation Pty Ltd | Ordinary | Australia | **100** | 100 |
| Suncorp Metway Executive Performance Share Plan Trust | Units | Australia | **100** | 100 |
| Suncorp Metway Staff Pty Ltd | Ordinary | Australia | **100** | 100 |
| Suncorp Property Development Equity Fund #2 Unit Trust | Units | Australia | **100** | 100 |
| **General Insurance entities** | | | | |
| Suncorp Insurance Holdings Limited and its subsidiary | Ordinary | Australia | **100** | 100 |
| Promgroup Limited[5] and its subsidiaries | Ordinary | Australia | **100** | 100 |
| Suncorp Group Holdings Pty Ltd and its subsidiaries | Ordinary | Australia | **100** | 100 |
| Suncorp Group Holdings (NZ) Limited and its subsidiaries | Ordinary | New Zealand | **100** | 100 |
| Vero Insurance New Zealand Limited and its subsidiaries | Ordinary | New Zealand | **100** | 100 |
| AA Insurance Limited | Ordinary | New Zealand | **68** | 68 |
| Fusion Insurance Services Limited | Ordinary | New Zealand | **50** | 50 |
| Comprehensive Travel Insurance (2004) Limited | Ordinary | New Zealand | **72** | 72 |
| Vero Liability Insurance Limited | Ordinary | New Zealand | **100** | 100 |
| Vero Insurance Limited and its subsidiaries | Ordinary | Australia | **100** | 100 |
| Australian Alliance Insurance Company Limited and its subsidiaries | Ordinary | Australia | **100** | 100 |
| Shannons Auctions Limited | Ordinary | Australia | **100** | 100 |
| Shannons Limited | Ordinary | Australia | **100** | 100 |
| Australian Associated Motor Insurers Limited and its subsidiaries | Ordinary | Australia | **100** | 100 |
| Skilled Drivers of Australia Limited[8] | n/a | Australia | **n/a** | n/a |
| Australian Surety Corporation Pty Limited and its subsidiary | Ordinary | Australia | **50.5** | 50.5 |
| New Zealand Surety Corporation Limited | Ordinary | New Zealand | **50.5** | 50.5 |
| GIO Insurance Investment Holdings A Pty Limited | Ordinary | Australia | **100** | 100 |
| Promequity Limited[5] | Ordinary | Australia | **100** | 100 |
| Suncorp Insurance Funding 2007 Limited | Ordinary | Australia | **100** | 100 |

## 46. Subsidiaries (continued)

### 46(b) Significant subsidiaries of Suncorp-Metway Ltd (continued)

| Subsidiaries | Class of shares | Country of incorporation | Equity holding 2010 % | 2009 % |
|---|---|---|---|---|
| **General Insurance entities (continued)** | | | | |
| Suncorp Metway Insurance Ltd and its subsidiaries | Ordinary | Australia | **100** | 100 |
| GIO General Limited and its subsidiaries | Ordinary | Australia | **100** | 100 |
| GIO Workers Compensation (Victoria) Limited | Ordinary | Australia | **100** | 100 |
| Suncorp Property Development Equity Fund | Units | Australia | **100** | 100 |
| The Park Road Property Trust[3] | Units | Australia | **87** | 87 |
| Terri Scheer Insurance Pty Ltd | Ordinary | Australia | **100** | 100 |
| Tyndall Quality Income Fund[6] | Units | Australia | **–** | 100 |
| **Life entities** | | | | |
| Asteron Group Limited (formerly SIP Super Pty Ltd)[11] and its subsidiaries | Ordinary | Australia | **100** | 100 |
| Asteron Life Limited[13] and its subsidiaries | Ordinary | Australia | **100** | 100 |
| | Preference | Australia | **–** | 100 |
| Tyndall Australian Bond Fund | Units | Australia | **87** | 92 |
| Tyndall Australian Core Share Fund | Units | Australia | **100** | 100 |
| Tyndall Australian Share Income Fund | Units | Australia | **64** | 94 |
| Tyndall Cash Fund[7] | Units | Australia | **98** | – |
| Tyndall Diversified Bond Fund | Units | Australia | **99** | 99 |
| Tyndall International Bond Fund | Units | Australia | **96** | 96 |
| Asteron Limited | Ordinary | Australia | **100** | 100 |
| Guardian Financial Planning Pty Limited | Ordinary | Australia | **100** | 100 |
| Camwal Limited | Ordinary | Australia | **100** | 100 |
| Guardianfp Limited | Ordinary | Australia | **100** | 100 |
| Suncorp Financial Services Pty Ltd | Ordinary | Australia | **100** | 100 |
| Standard Pacific Consulting Limited | Ordinary | Australia | **100** | 100 |
| Prominvest Pty Limited and its subsidiaries | Ordinary | Australia | **100** | 100 |
| Suncorp Group Services NZ Limited and its subsidiaries | Ordinary | New Zealand | **100** | 100 |
| Suncorp Group New Zealand Limited and its subsidiaries | Ordinary | New Zealand | **100** | 100 |
| Asteron Life Limited and its subsidiaries | Ordinary | New Zealand | **100** | 100 |
| Asteron Retirement Investment Limited | Ordinary | New Zealand | **100** | 100 |
| Asteron Trust Services Limited | Ordinary | New Zealand | **100** | 100 |
| GTFM Mortgage Fund | Units | New Zealand | **100** | 100 |
| SAL Re Limited | Ordinary | New Zealand | **100** | 100 |
| The New Zealand Guardian Trust Company Limited and its subsidiaries | Ordinary | New Zealand | **100** | 100 |
| Guardian Trust Registry Services Limited | Ordinary | New Zealand | **100** | 100 |
| Guardian Trust Superannuation Trustees Limited | Ordinary | New Zealand | **100** | 100 |
| NZ International Trustee Company Limited | Ordinary | New Zealand | **100** | 100 |
| TSB PIE Limited | Ordinary | New Zealand | **100** | 100 |
| Tyndall Investment Management New Zealand Limited | Ordinary | New Zealand | **100** | 100 |
| Suncorp Life & Superannuation Limited and its subsidiaries | Ordinary | Australia | **100** | 100 |
| Suncorp Investment Management Australian Cash Trust | Units | Australia | **97** | 97 |
| Suncorp Investment Management Australian Equities Trust | Units | Australia | **89** | 86 |
| Suncorp Investment Management Australian Fixed Interest Trust | Units | Australia | **87** | 87 |
| Suncorp Investment Management Global Macro Tactical Asset Allocation Trust | Units | Australia | **88** | 89 |
| Suncorp Investment Management Imputation Trust | Units | Australia | **56** | 53 |
| Suncorp Investment Management Property Securities Trust | Units | Australia | **79** | 71 |
| Suncorp Investment Management World Equities Trust[9] | Units | Australia | **85** | 80 |
| Suncorp Investment Management World Fixed Interest Trust and its subsidiary | Units | Australia | **92** | 95 |
| Suncorp Investment Management Mortgage Backed Trust | Units | Australia | **96** | 92 |

| Subsidiaries | Class of shares | Country of incorporation | Equity holding 2010 % | 2009 % |
|---|---|---|---|---|
| **Life entities (continued)** | | | | |
| Suncorp Metway Investment Management Limited and its subsidiaries | Ordinary | Australia | **100** | 100 |
| Suncorp Custodian Services Pty Ltd | Ordinary | Australia | **100** | 100 |
| Tasman Asset Management Limited | Ordinary | Australia | **100** | 100 |
| Suncorp Portfolio Services Limited | Ordinary | Australia | **100** | 100 |
| Tyndall Investment Management Limited[10] and its subsidiary | Ordinary | Australia | **100** | 100 |
| Tyndall Equities Australia Pty Ltd | 'A' Class Ord | Australia | **100** | 100 |
| SIS Super Pty Ltd | Ordinary | Australia | **100** | 100 |
| **Other entities** | | | | |
| Hooker Corporation Limited and its subsidiaries[12] | Ordinary | Australia | **–** | 100 |
| LJ Hooker Limited[12] | Ordinary | Australia | **–** | 100 |
| LJ Hooker Group Limited[12] | Ordinary | New Zealand | **–** | 100 |
| Property Training Solutions Limited[12] | Ordinary | New Zealand | **–** | 100 |

1 Names indented in these tables indicate direct subsidiaries of the entities appearing above.

2 Non-operating and minor operating subsidiaries are excluded from the above list.

3 Suncorp Metway Insurance Ltd holds a 47% (2009: 47%) interest and Graham & Company Limited holds a 40% (2009: 40%) interest in The Park Road Property Trust.

4 Name changed on 16 July 2009.

5 Also registered as an overseas company in New Zealand.

6 Vero Insurance Limited holds a 0% (2009: 83%) interest and Asteron Life Limited holds a 0% (2009: 17%) interest in the Tyndall Quality Income Fund.

7 Vero Insurance Limited holds a 15% (2009: 0%) interest, Australian Alliance Insurance Company Limited holds a 6% (2009: 0%) interest, Australian Associated Motor Insurers Limited holds an 8% (2009: 0%) interest, Suncorp Metway Insurance Ltd holds a 14% (2009: 0%) interest, GIO General Limited holds a 13% (2009: 0%) interest, Asteron Life Limited holds a 24% (2009: 0%) interest, and Suncorp Life & Superannuation Limited holds an 18% (2009: 0%) interest in Tyndall Cash Fund.

8 As Skilled Drivers of Australia Limited ABN 71 005 918 301 (incorporated in Australia) is a company limited by guarantee and Australian Associated Motor Insurers Limited is not entitled to dividends or capital distributions, the financial performance or position of the company is not consolidated into the Group results.

9 Asteron Life Limited holds a 11% (2009: 12%) interest and Suncorp Life & Superannuation Limited holds a 74% (2009: 68%) interest in the Suncorp Investment Management World Equities Trust.

10 Tyndall Investment Management Limited holds all 97 Class A Ordinary shares. Employees hold all 97 Class B Redeemable Preference Shares. Tyndall Investment Management Limited has control for consolidation purposes.

11 Name changed on 28 August 2009.

12 Companies sold 15 October 2009.

13 During the year, preference shares were redeemed and reissued as ordinary shares.

## 47. Notes to the statements of cash flows

### 47(a) Reconciliation of cash flows from operating activities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2010 $m** | 2009 $m | **2010 $m** | 2009 $m |
| **Profit for the year** | **789** | 353 | **512** | 843 |
| **Classified as investing activities** | | | | |
| Income tax paid – investing activities | **231** | 74 | **–** | – |
| **Non-cash items** | | | | |
| Write-off for liability adequacy test deficiency | **–** | 19 | **–** | – |
| Amortisation of share-based payments | **11** | 23 | **9** | 21 |
| Write-off of software | **–** | 18 | **–** | – |
| Change in fair value of trading securities | **11** | 10 | **11** | 59 |
| Change in fair value of investments | **(557)** | 933 | **–** | 1 |
| Change in fair value of subordinated debt | **(90)** | – | **(91)** | – |
| Change in fair value of investment property | **12** | 12 | **–** | – |
| Change in the fair value of assets held for sale | **–** | 11 | **–** | – |
| Impairment loss on joint ventures | **17** | 19 | **–** | – |
| Impairment losses on loans and advances | **479** | 710 | **463** | 688 |
| Net profits on financial liabilities at amortised cost | **(2)** | (145) | **–** | (89) |
| Depreciation/amortisation of property, plant and equipment and intangible assets | **358** | 391 | **1** | 2 |
| Profit on disposal of subsidiary | **(50)** | – | **(64)** | – |
| Profit on disposal of associates and joint ventures | **(165)** | (4) | **–** | – |
| Loss on disposal of property, plant and equipment | **2** | 3 | **–** | – |
| Share of net (profit) loss of joint ventures and associates accounted for using the equity method | **(29)** | 3 | **–** | – |
| **Change in assets and liabilities** | | | | |
| Gross up of GST on lease instalments included in operating payments | **–** | 9 | **–** | 11 |
| Net movement in tax balances | **(52)** | (85) | **(149)** | (89) |
| Dividends received from associates and joint ventures | **83** | – | **–** | – |
| Increase in accrued interest receivable | **(62)** | 27 | **(23)** | 25 |
| Decrease (increase) in prepayments and deferred expenses | **52** | (75) | **–** | – |
| (Increase) in trading securities | **(1,550)** | (1,019) | **(1,550)** | (1,068) |
| Decrease (increase) in loans, advances and other receivables | **2,681** | 79 | **2,349** | (174) |
| (Increase) decrease in receivables and other financial assets | **(423)** | (337) | **30** | 145 |
| (Decrease) in deposits and short-term borrowings | **(3,774)** | (5,260) | **(4,277)** | (5,688) |
| (Decrease) increase in sundry creditors and accrued expenses | **(112)** | 20 | **(141)** | 60 |
| Increase in outstanding claims liabilities | **522** | 366 | **–** | – |
| Increase in unearned premiums and unexpired risk liabilities | **144** | 265 | **–** | – |
| Increase (decrease) in gross policy liabilities | **36** | (1,246) | **–** | – |
| Increase in unvested policyowner benefits | **7** | 83 | **–** | – |
| **Net cash from operating activities** | **(1,431)** | (4,743) | **(2,920)** | (5,253) |

## 47(b) Financing arrangements

| | Consolidated | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | **2010** | 2009 | 2009 | **2010** | **2010** | 2009 | 2009 |
| | **Program limit** | **Unused** | Program limit | Unused | **Program limit** | **Unused** | Program limit | Unused |
| | **$m** | **$m** | $m | $m | **$m** | **$m** | $m | $m |
| Unrestricted access was available at balance date to the following: | | | | | | | | |
| Overdraft limit | **30** | **30** | 30 | 30 | **–** | **–** | – | – |
| The Group had the following debt program outstanding at end of the financial year: | | | | | | | | |
| USD$15 billion program | **17,859** | **11,692** | 18,487 | 10,373 | **17,859** | **11,692** | 18,487 | 10,373 |
| USD$5 billion program | **5,953** | **5,953** | 6,162 | 6,162 | **5,953** | **5,953** | 6,162 | 6,162 |
| Japanese Yen bond program | **172** | **–** | 172 | – | **172** | **–** | 172 | – |
| US144a MTN program | **17,859** | **11,198** | 18,487 | 11,825 | **17,859** | **11,198** | 18,487 | 11,825 |
| AUD TCD program | **5,033** | **–** | 4,353 | – | **5,033** | **–** | 4,353 | – |
| | **46,876** | **28,843** | 47,661 | 28,360 | **46,876** | **28,843** | 47,661 | 28,360 |

## 48. Key management personnel disclosures

### 48(a) Key management personnel

The following are the Company's executives who had authority and responsibility for planning, directing and controlling the activities of the Company and the Group during the whole of the financial year, or from their appointment date or until resignation date (as noted below):

| Name | Position | Period |
|---|---|---|
| **Key management personnel in office as at 30 June 2010** | | |
| P Snowball | Group Chief Executive Officer | Appointed 1 September 2009 |
| R Bell | Chief Executive Officer, Vero New Zealand | |
| D Chandran | Acting Group Executive, Human Resources | Appointed 20 April 2010 |
| A Day | Chief Executive Officer, Commercial Insurance | Appointed 21 October 2009 |
| D Foster | Chief Executive Officer, Suncorp Bank | |
| M Milliner | Chief Executive Officer, Personal Insurance | Change of roles during the financial year |
| J Nesbitt | Group Chief Financial Officer | Appointed 3 May 2010 |
| J Smith | Chief Executive Officer, Suncorp Business Services | |
| R Stribling | Group Chief Risk Officer | Appointed 4 January 2010 |
| G Summerhayes | Chief Executive Officer, Suncorp Life | |
| **Former key management personnel** | | |
| C Skilton | Acting Chief Executive Officer | Left office 31 August 2009 |
| S Alomes | Group Executive, Human Resources | Appointed 23 November 2009 resigned 19 March 2010 |
| M Blucher | Group Executive, Integration | Left office 31 August 2009 |
| A Harmer | Acting Chief Risk Officer | Appointed 16 April 2009, left office 19 February 2010 |
| C Herbert | Acting Chief Financial Officer | 2 March 2009 to 30 April 2010, continues as Deputy Chief Financial Officer |
| B Inglis | Group Executive, Personal Insurance | Left office 21 October 2009 |
| S McDonald | Group Executive Strategy, People and Corporate Services | Left office 21 October 2009 |

Mr Skilton, Mr Bell, Mr Blucher, Mr Foster, Ms Inglis, Mr McDonald, Mr Milliner, Mr Smith and Mr Summerhayes held their positions as KMP for the duration of the previous financial year.

In July 2010, the appointment of Amanda Revis as Group Executive, Human Resources was announced. Her appointment is effective from 16 August 2010.

In conjunction with the Board of Directors, these executives constitute the key management personnel of the Company. These executives are also included as the executives (other than executive directors) who received the highest remuneration for the year in accordance with S300A of the *Corporations Act 2001*. There are no other executives employed within the Group that are considered to be Group key management personnel. Any executive who has received higher remuneration than the key management personnel of the Company is included in the Directors' Report as part of the five most highly remunerated executives in accordance with S300A of the *Corporations Act 2001*.

The Company's Board of Directors at any time during or since the end of the financial year are:

- J Story (Chairman)
- W Bartlett
- Dr I Blackburne
- P Dwyer
- S Grimshaw (appointed 27 January 2010)
- Dr C Hirst AO (retired 16 April 2010)
- M Kriewaldt (retired 16 April 2010)
- E Kulk
- G Ricketts
- C Skilton (resigned as Acting Chief Executive Officer and executive director 31 August 2009)
- P Snowball (appointed 1 September 2009)
- Dr Z Switkowski
- L Tutt (retired 28 October 2009)

## 48(b) Key management personnel compensation

The key management personnel compensation included in 'Staff expenses' (refer note 7) are as follows:

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

Short-term employee benefits include salaries and other short-term benefits paid to key management personnel employed by a Group entity as well as fees paid to Ernst & Young in relation to the secondment of Mr Harmer, Acting Chief Risk Officer and the secondment of Mr Chandran, Acting Group Executive, Human Resources.

## 48(c) Individual director and executive compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by *Corporations Regulations 2M.3.03* are provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

## 48. Key management personnel disclosures (continued)

### 48(d) Loans to key management personnel and their related parties

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

| | Balance 1 July 2009 | Balance 30 June 2010 | Interest charged | Highest balance in year | Balance 1 July 2008 | Balance 30 June 2009 | Interest charged | Highest balance in year |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Directors** | | | | | | | | |
| J Mulcahy[1, 2] | **–** | **–** | **–** | **–** | 1,213,597 | – | 34,373 | 1,213,597 |
| L Tutt[1, 3] | **597,227** | **–** | **7,457** | **599,750** | 595,122 | 597,227 | 40,978 | 600,192 |
| **Executives** | | | | | | | | |
| M Blucher[1, 4] | **547,315** | **–** | **4,675** | **551,990** | 989,851 | 547,315 | 63,463 | 1,002,073 |
| C Herbert[1, 5] | **483,168** | **–** | **25,700** | **483,168** | n/a | 483,168 | 11,196 | 488,214 |
| S McDonald[1, 6] | **922,876** | **–** | **12,850** | **929,520** | 1,018,162 | 922,876 | 64,394 | 1,083,996 |
| M Milliner | **718,949** | **1,848,523** | **74,208** | **2,588,456** | 674,935 | 718,949 | 47,163 | 1,312,227 |
| J Smith | **2,638,625** | **900,000** | **177,141** | **2,638,625** | 2,657,806 | 2,638,625 | 218,232 | 2,663,340 |

1 Interest charged in the above table reflects the amount charged during the period in which individuals were considered key management personnel.
2 Mr Mulcahy resigned on 2 March 2009.
3 Mr Tutt retired on 28 October 2009.
4 The contract with Mr Blucher terminated on 31 August 2009.
5 Mr Herbert was appointed as Acting Chief Financial Officer on 2 March 2009. His term as Acting Chief Financial Officer concluded on 30 April 2010.
6 Mr McDonald left on 21 October 2009.

New loan facilities totalling $1,700,000 (2009: nil) were made to key management personnel and their related parties during the year.

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

| | Opening balance | Closing balance | Interest charged | Individuals in group at 30 June |
|---|---|---|---|---|
| | $ | $ | $ | |
| **Total for key management personnel 2010** | **5,310,933** | **2,748,523** | **294,574** | **2** |
| Total for key management personnel 2009 | 5,340,753 | 5,310,933 | 404,448 | 5 |
| **Total for other related parties 2010** | **597,227** | **–** | **7,457** | **–** |
| Total for other related parties 2009 | 1,808,719 | 597,227 | 75,351 | 2 |
| **Total for key management personnel and their related parties 2010** | **5,908,160** | **2,748,523** | **302,031** | **2** |
| Total for key management personnel and their related parties 2009 | 7,149,472 | 5,908,160 | 479,799 | 7 |

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

## 48(e) Other key management personnel transactions with the Company or its subsidiaries

### Financial instrument transactions

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

### Transactions other than financial instrument transactions

Mr Kriewaldt provided advice to AON Holdings Australia Limited until 31 October 2009. That firm provided insurance brokerage services to the Group.

Mr Ricketts is a director of Spotless Group Limited, the parent entity of a company that provided catering services to the Group over the course of the year. The contractual arrangements between the Company and Spotless Services Australia Limited were in place prior to the date Mr Ricketts joined the Company's Board. Goods and services purchased from Spotless Group Limited during the financial year amounted to $294,990 (2009: $380,159). There was no amount payable to Spotless Group Limited at balance date. Mr Ricketts also acted as a consultant for Russell McVeagh Solicitors (NZ), which provided legal services to the Group throughout the year.

As at 30 June 2010, Mr Kulk holds 211,372 units (2009: 211,372 units) in Tyndall Australian Share Wholesale Portfolio (TASWP), a registered managed investment scheme of which Tasman Asset Management Limited (a subsidiary of the Company) is the Responsible Entity and therefore the issuer of the TASWP units.

Mr Harmer's secondment from Ernst & Young, filling the role of Chief Risk Officer (acting), concluded on 19 February 2010 following the appointment of the permanent incumbent, Mr Stribling. Mr Chandran is on secondment from Ernst & Young and is filling the role of Group Executive, Human Resources (acting) until the permanent incumbent commences in August 2010. The secondment fees are paid directly to Ernst & Young. Ernst & Young provide accounting and consulting services to the Group.

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

## 48. Key management personnel disclosures (continued)

### 48(f) Movement in shares

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management personnel, including their related parties, is as follows:

| | Balance 1 July 2009 | | | | | Balance 30 June 2010 | |
|---|---|---|---|---|---|---|---|
| | Ordinary shares | Performance rights[1] | Received as compensation[2] | Purchases (sales) | Other changes | Ordinary shares | Performance rights |
| **2010** | | | | | | | |
| **Directors** | | | | | | | |
| *Executive directors* | | | | | | | |
| C Skilton[7] | 96,776 | 333,164 | – | – | (429,940) | – | – |
| P Snowball[8] | – | – | 900,000 | 66,123 | – | 66,123 | 900,000 |
| *Non-executive directors* | | | | | | | |
| J Story | 134,880 | – | – | 3,923 | – | 138,803 | – |
| W Bartlett | 19,968 | – | – | – | – | 19,968 | – |
| Dr I Blackburne | 36,640 | – | – | – | – | 36,640 | – |
| P Dwyer | 18,000 | – | – | 2,000 | – | 20,000 | – |
| S Grimshaw[4] | – | – | – | 23,350 | – | 23,350 | – |
| Dr C Hirst AO[5] | 27,678 | – | – | – | (27,678) | – | – |
| M Kriewaldt[5] | 45,043 | – | – | 366 | (45,409) | – | – |
| E Kulk | 20,173 | – | – | – | – | 20,173 | – |
| G Ricketts | 21,764 | – | – | 952 | – | 22,716 | – |
| Dr Z Switkowski | 61,599 | – | – | – | – | 61,599 | – |
| L Tutt[6] | 60,969 | – | – | 1,539 | (62,508) | – | – |
| **Executives** | | | | | | | |
| S Alomes[11] | – | – | 58,989 | – | (58,989) | – | – |
| R Bell | 83,999 | 120,825 | 76,096 | – | – | 83,999 | 196,921 |
| M Blucher[7] | 203,978 | 265,896 | – | – | (469,874) | – | – |
| D Chandran | – | – | – | – | – | – | – |
| A Day[12] | – | – | 17,092 | 6 | 23,742 | 362 | 40,478 |
| D Foster | 25,542 | 120,895 | 81,949 | – | – | 25,542 | 202,844 |
| A Harmer | – | – | – | – | – | – | – |
| C Herbert[3] | 17,285 | 47,416 | 46,828 | – | (111,529) | – | – |
| B Inglis[13] | 4,389 | 231,992 | 93,657 | – | (330,038) | – | – |
| S McDonald[13] | 73,966 | 158,934 | 81,949 | – | (314,849) | – | – |
| M Milliner | 66,490 | 137,512 | 81,949 | 1,536 | – | 68,026 | 219,461 |
| J Nesbitt[9] | – | – | 313,016 | – | – | – | 313,016 |
| J Smith | 110,202 | 111,937 | 87,803 | 5,760 | – | 115,962 | 199,740 |
| R Stribling[10] | – | – | – | 5,144 | 4,856 | 10,000 | – |
| G Summerhayes | – | 61,800 | 73,169 | – | – | – | 134,969 |

1 The number of performance rights disclosed for executive directors and Group Executives represents performance rights held by the trustee of the Executive Performance Share Plan (EPSP) and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles.

2 For Executive Directors and Group Executives compensation includes shares held under the EPSP. These shares are recorded in the Company's share register in the name of the EPSP Trustee and vest only when performance hurdles are met. 5,132 shares vested during the 2010 financial year (2009: 139,671). The remuneration disclosure includes the fair value of the shares amortised over the vesting period.

3 Mr Herbert left office on 30 April 2010 when his secondment to Acting CFO ceased. He continues in the Deputy CFO position. Shares held upon leaving office are shown in 'Other changes'. Of the shares held on leaving office, 80,129 shares remain subject to performance hurdles.

4 Appointed 27 January 2010

5 Retired on 16 April 2010. Shares held upon retirement are shown in 'Other changes'.

6 Retired 28 October 2009. Shares held upon retirement are shown in 'Other changes'.

7 Resigned 31 August 2009. Shares or performance rights held upon resignation are shown in 'Other changes'. Of the shares held by Mr Skilton on resignation, 189,135 shares remain subject to performance hurdles.

8 Appointed 1 September 2009

9 Appointed 3 May 2010

10 Appointed 4 January 2010. Shares held on appointment are shown in 'Other changes'.

11 Appointed 23 November 2009, resigned 19 March 2010. The performance rights awarded on appointment were forfeited on resignation and are shown in 'Other changes'.

12 Appointed 21 October 2009. Shares held on appointment are shown in 'Other changes'.

13 Left office on 21 October 2009. Shares held upon departure are shown in 'Other changes'. Of the shares held by Mr McDonald on leaving office, 81,949 shares remain subject to performance hurdles.

| | Balance 1 July 2008 | | | | | Balance 30 June 2009 | |
|---|---|---|---|---|---|---|---|
| | Ordinary shares | Performance rights[1] | Received as compensation[2] | Purchases (sales) | Other changes | Ordinary shares | Performance rights |
| **2009** | | | | | | | |
| **Directors** | | | | | | | |
| *Executive directors* | | | | | | | |
| J Mulcahy[3] | – | 979,142 | 22,739 | – | (1,001,881) | – | – |
| C Skilton | 44,122 | 234,283 | 98,881 | 52,633 | 21 | 96,776 | 333,164 |
| *Non-executive directors* | | | | | | | – |
| J Story | 99,817 | – | – | 35,063 | – | 134,880 | – |
| W Bartlett | 16,640 | – | – | 3,328 | – | 19,968 | – |
| Dr I Blackburne | 30,534 | – | – | 6,106 | – | 36,640 | – |
| P Dwyer | 15,000 | – | – | 3,000 | – | 18,000 | – |
| Dr C Hirst AO | 13,628 | – | – | 14,050 | – | 27,678 | – |
| M Kriewaldt | 56,939 | – | – | 8,473 | (20,369) | 45,043 | – |
| E Kulk | 6,812 | – | – | 13,361 | – | 20,173 | – |
| G Ricketts | 16,684 | – | – | 5,080 | – | 21,764 | – |
| Dr Z Switkowski | 51,333 | – | – | 10,266 | – | 61,599 | – |
| L Tutt | 46,739 | – | – | 14,230 | – | 60,969 | – |
| **Executives** | | | | | | | |
| R Bell | 83,999 | 56,553 | 64,272 | – | – | 83,999 | 120,825 |
| R Belleville[4] | 104,922 | 69,605 | 79,104 | 3,777 | (257,408) | – | – |
| M Blucher | 203,978 | 186,792 | 79,104 | – | – | 203,978 | 265,896 |
| D Foster | 18,749 | 63,416 | 64,272 | – | – | 25,542 | 120,895 |
| A Harmer | – | – | – | – | – | – | – |
| C Herbert[5] | – | – | – | 4,835 | 59,866 | 17,285 | 47,416 |
| B Inglis | 4,389 | 162,888 | 79,104 | (10,000) | – | 4,389 | 231,992 |
| S McDonald | 35,199 | 89,718 | 69,216 | 38,767 | – | 73,966 | 158,934 |
| M Milliner | 59,475 | 68,296 | 69,216 | 7,015 | – | 66,490 | 137,512 |
| J Smith | 25,654 | 37,777 | 74,160 | 84,548 | – | 110,202 | 111,937 |
| G Summerhayes | – | – | 61,800 | – | – | – | 61,800 |

1 The number of performance rights disclosed for executive directors and Group Executives represents performance rights held by the trustee of the Executive Performance Share Plan (EPSP) and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles. In regard to the 429,940 shares attributed to Mr Skilton, 189,135 shares remain subject to performance hurdles.

2 For Executive directors and Executives, compensation includes shares held under the EPSP. These shares are recorded in the Company's share register in the name of the EPSP Trustee and vest only when performance hurdles are met. 139,671 shares vested during the 2009 financial year. The remuneration disclosure includes the fair value of the shares allocated over the vesting period.

3 Mr Mulcahy resigned during the period. Shares held upon resignation are shown in 'Other changes'. Of the shares held on resignation, 553,961 shares remain subject to performance hurdles.

4 Mr Belleville resigned during the period. Shares held upon resignation are shown in 'Other changes'. Of the shares held on resignation, 79,104 remain subject to performance hurdles.

5 Mr Herbert was appointed during the period. Shares held upon appointment are shown in 'Other changes'.

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

The movement during the reporting period in the number of Convertible Preference Shares in the Company held, directly, indirectly or beneficially, by each key management personnel, including their related parties is as follows:

| | **Balance 1 July 2009** | **Received as compensation** | **Purchases (sales)** | **Other changes** | **Balance 30 June 2010** | Balance 1 July 2008 | Received as compensation | Purchases (sales) | Other changes | Balance 30 June 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| Dr C Hirst AO[1] | 100 | – | – | (100) | – | 100 | – | – | – | 100 |
| **Executives** | | | | | | | | | | |
| D Foster | 90 | – | – | – | 90 | 90 | – | – | – | 90 |

1 Retired on 16 April 2010. Shares held upon retirement are shown in 'Other changes'.

## 49. Other related party disclosures

### 49(a) Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 46), associates and joint venture entities (see note 19) and with its key management personnel (see note 48).

### 49(b) Other related party transactions with subsidiaries

A number of banking transactions are entered into by the Company with related parties in the normal course of business. These include loans, deposits and foreign currency transactions, upon which some fees and commissions may be earned. Other transactions between the Company and subsidiaries consisted of advances made and repaid, dividends received and paid, insurance premiums received and paid, fees received and paid for administrative, property and portfolio management services, and interest received and paid. All these transactions were on a normal commercial basis except that some advances may be interest free.

Transactions between the Company and members of the Group have been included in the profit before tax and are disclosed in notes 6 and 7.

| | Company | |
|---|---|---|
| | **2010 $000** | 2009 $000 |
| **Current amounts receivable (unsecured)** | | |
| Current amounts receivable from subsidiaries | **1,882,593** | 2,865,625 |
| Loans receivable from subsidiaries | **3,412** | 3,359 |
| | **1,886,005** | 2,868,984 |
| **Current amounts payable (unsecured)** | | |
| Current amounts payable to subsidiaries | **5,584,852** | 7,194,520 |
| Deposits and short-term borrowings from subsidiaries | **243,933** | 408,296 |
| Debt issues | **285,531** | 338,608 |
| Loans payable to subsidiaries | **16,584** | 15,984 |
| | **6,130,900** | 7,957,408 |

### 49(c) Other related party transactions with associates and joint venture entities

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

| | Consolidated | |
|---|---|---|
| | **2010 $000** | 2009 $000 |
| The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are: | | |
| Other revenue received or due and receivable | | |
| Associates | **278** | – |
| Joint venture entities | **96,476** | 35,140 |
| Other expenses paid or due and payable | | |
| Associates | **76** | – |
| Joint venture entities | **4,000** | 30,856 |
| Aggregate amounts receivable from, and payable to, each class of related parties at balance date: | | |
| Receivables | | |
| Associates | **7,529** | 402 |
| Joint venture entities | **83,551** | 2,593 |
| Payables | | |
| Associates | **–** | – |
| Joint venture entities | **1** | 14,900 |

### 49(d) Other related parties

Contributions to defined benefit and superannuation funds on behalf of employees are disclosed in notes 26(a) and 26(b).

## 50. 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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

# Directors' declaration

1 In the opinion of the directors of Suncorp-Metway Ltd (the Company):

(a) the financial statements and notes, and the Remuneration Report in the Directors' Report, set out on pages 48 to 187, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2010 and of their performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Group Chief Executive Officer and Group Chief Financial Officer for the financial year ended 30 June 2010.

3 The directors draw attention to note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Brisbane
25 August 2010

**John D Story**
Chairman

**Patrick J R Snowball**
Executive Director

# Independent Auditor's Report to the members of Suncorp-Metway Ltd

## Report on the financial report

We have audited the accompanying financial report of Suncorp-Metway Ltd (the Company), which comprises the Statements of Financial Position as at 30 June 2010, and Income Statements and Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 50 and the Directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

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

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

### *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 and the Group's financial position and of their performance.

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

### *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-Metway Ltd is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

## Report on the remuneration report

We have audited the sections of the Directors' remuneration report included in the Directors' Report set out on pages 13 to 32 for the year ended 30 June 2010, that are described as audited. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

***Auditor's opinion***

In our opinion, the remuneration disclosures that are contained in the sections of the Directors' remuneration report of Suncorp-Metway Ltd, included in the Directors' Report set out on pages 13 to 32 for the year ended 30 June 2010, that are described as audited, comply with Section 300A of the *Corporations Act 2001*.

KPMG

**KPMG**

P.M. Reid

**Paul Reid**
Partner

Brisbane
25 August 2010

# Shareholder information

## Registered office

Level 18 Suncorp Centre
36 Wickham Terrace
Brisbane Qld 4000 Australia

Ph 07 3362 1222
Fax 07 3836 1190

www.suncorpgroup.com.au

## 2010 Annual General Meeting

The 2010 Annual General Meeting of the Company is to be held on Thursday 4 November 2010 at 2.30pm at the Sofitel Brisbane, 249 Turbot Street, Brisbane Qld 4000.

## Shareholder information

The Company's securities listed on the Australian Securities Exchange (ASX) are:

| Class of security | ASX code | Number in issue at 17 August 2010 |
|---|---|---|
| Ordinary shares | SUN | 1,281,390,524 |
| Reset preference shares | SUNPA | 1,440,628 |
| Convertible preference shares | SUNPB | 7,350,000 |
| Floating rate capital notes | SUNHB | 1,698,008 |

## Key dates

Dates for dividend payments are subject to change and will be confirmed at the date of declaration of the respective dividend.

### Annual General Meeting 4 November 2010

| | |
|---|---|
| **Full year results and final dividend announcement** | 25 August 2010 |
| Half-year results announcement | 23 February 2011 |
| **Full year results and final dividend announcement** | 24 August 2011 |

### Ordinary shares (SUN)

| | |
|---|---|
| **2010** | |
| Ex dividend date | 30 August 2010 |
| Record date | 3 September 2010 |
| Dividend payment | 1 October 2010 |
| **2011** | |
| Ex dividend date | 28 February 2011 |
| Record date | 4 March 2011 |
| Dividend payment | 1 April 2011 |

### Reset preference shares (SUNPA)

| | |
|---|---|
| **2010** | |
| Ex dividend date | 30 August 2010 |
| Record date | 3 September 2010 |
| Dividend payment | 14 September 2010 |
| **2011** | |
| Ex dividend date | 28 February 2011 |
| Record date | 4 March 2011 |
| Dividend payment | 14 March 2011 |

### Convertible preference shares (SUNPB)

| | |
|---|---|
| **2010** | |
| Ex dividend date | 30 August 2010 |
| Record date | 3 September 2010 |
| Dividend payment | 14 September 2010 |
| Ex dividend date | 26 November 2010 |
| Record date | 2 December 2010 |
| Dividend payment | 14 December 2010 |
| **2011** | |
| Ex dividend date | 28 February 2011 |
| Record date | 4 March 2011 |
| Dividend payment | 14 March 2011 |
| Ex dividend date | 26 May 2011 |
| Record date | 1 June 2011 |
| Dividend payment | 14 June 2011 |

### Floating rate capital notes (SUNHB)

| | |
|---|---|
| **2010** | |
| Ex interest date | 10 August 2010 |
| Record date | 16 August 2010 |
| Interest payment | 31 August 2010 |
| Ex interest date | 9 November 2010 |
| Record date | 15 November 2010 |
| Interest payment | 30 November 2010 |
| **2011** | |
| Ex interest date | 9 February 2011 |
| Record date | 15 February 2011 |
| Interest payment | 2 March 2011 |
| Ex interest date | 10 May 2011 |
| Record date | 16 May 2011 |
| Interest payment | 31 May 2011 |

## Auditors

**KPMG**
Level 16, Riparian Plaza
71 Eagle Street
Brisbane Qld 4000 Australia

## Top 20 shareholders

### Ordinary shares – top 20 shareholders

| Name | Number | % issued capital |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 232,017,113 | 18.11 |
| National Nominees Limited | 205,305,025 | 16.02 |
| J P Morgan Nominees Australia Limited | 194,360,896 | 15.17 |
| Citicorp Nominees Pty Limited | 58,626,594 | 4.58 |
| Cogent Nominees Pty Limited | 27,508,871 | 2.15 |
| ANZ Nominees Limited <Cash Income A/C> | 18,938,679 | 1.48 |
| Citicorp Nominees Pty Limited <CFS WSLE Geared Shr Fnd A/C> | 18,544,980 | 1.45 |
| AMP Life Limited | 16,042,085 | 1.25 |
| RBC Dexia Investor Services Australia Nominees Pty Limited <PI pooled A/C> | 9,553,178 | 0.75 |
| Queensland Investment Corporation | 7,648,774 | 0.60 |
| CPU Share Plans Pty Limited <EPSP Share Plan A/C> | 6,723,215 | 0.52 |
| Australian Reward Investment Alliance | 6,306,782 | 0.49 |
| Cogent Nominees Pty Limited <SMP Accounts> | 5,588,434 | 0.44 |
| UBS Nominees Pty Ltd | 4,041,752 | 0.32 |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 3,791,387 | 0.30 |
| ARGO Investments Limited | 3,308,894 | 0.26 |
| Citicorp Nominees Pty Limited <CFSIL Cwlth Aust SHS 1 A/C> | 2,500,000 | 0.20 |
| Milton Corporation Limited | 2,339,507 | 0.18 |
| Citicorp Nominees Pty Limited <CFSIL Cwlth Aust SHS 18 A/C> | 2,040,743 | 0.16 |
| Questor Financial Services Limited <TPS RF A/C> | 1,933,884 | 0.15 |

The number of security investors holding less than a marketable parcel of 63 securities ($7.99 on 17 August 2010) is 3,952 and they hold 130,942 securities.

***Distribution of shareholdings***

| Ranges | Investors | Number | % issued capital |
|---|---|---|---|
| 1 to 1,000 | 114,108 | 58,408,354 | 4.56 |
| 1,001 to 5,000 | 68,544 | 147,940,825 | 11.55 |
| 5,001 to 10,000 | 10,049 | 70,032,756 | 5.47 |
| 10,001 to 100,000 | 5,799 | 120,442,510 | 9.40 |
| 100,001 and over | 197 | 884,566,079 | 69.03 |
| **Total** | **198,697** | **1,281,390,524** | **100.00** |

### Voting rights of ordinary shareholders

The fully paid ordinary shareholders are entitled to vote at any meeting of the members of the Company and their voting rights are on:

- **Show of hands** – one vote per shareholder
- **Poll** – one vote per fully paid ordinary share

### Substantial shareholders

At 30 August 2010, the following entries were recorded in the register of substantial shareholdings (based on substantial holding notices received):

| | |
|---|---|
| National Australia Bank | 74,564,548 ordinary shares |
| Commonwealth Bank of Australia | 64,389,689 ordinary shares |

## Reset preference shares – top 20 shareholders

| Name | Number | % issued capital |
|---|---|---|
| UBS Nominees Pty Ltd | 130,666 | 9.07 |
| HSBC Custody Nominees (Australia) Limited | 112,157 | 7.79 |
| RBC Dexia Investor Services Australia Nominees Pty Limited <GSENIP A/C> | 78,655 | 5.46 |
| Eastcote Pty Ltd <Van Lieshout Family A/C> | 50,000 | 3.47 |
| The Australian National University | 50,000 | 3.47 |
| Citicorp Nominees Pty Limited | 47,674 | 3.31 |
| Argo Investments Limited | 32,000 | 2.22 |
| UBS Wealth Management Australia Nominees Pty Ltd | 30,392 | 2.11 |
| Australian Industrial Sands Pty Ltd | 23,546 | 1.63 |
| National Nominees Limited | 17,913 | 1.24 |
| The Ian Potter Foundation Ltd <No 1 A/C> | 15,800 | 1.10 |
| Cogent Nominees Pty Limited | 13,641 | 0.95 |
| ANZ Trustees Limited <Queensland Common Fund A/C> | 11,164 | 0.77 |
| RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C> | 9,666 | 0.67 |
| Equity Trustees Limited <Garnet S/Fund- Accumulation> | 9,239 | 0.64 |
| The Synod of the Diocese of Adelaide of the Anglican Church of Australia Inc <No2 A/C> | 8,000 | 0.56 |
| Bedford Industries Incorporated | 7,000 | 0.49 |
| Equity Trustees Limited <Garnet – Allocated Pension> | 6,957 | 0.48 |
| Perri Cutten Superannuation Nominees Pty Ltd <Perri Cutten Australia Pty Ltd Exec Benefit Plan A/C> | 6,371 | 0.44 |
| Trustees of the Diocese of Tasmania | 5,956 | 0.41 |

The number of security investors holding less than a marketable parcel of 5 securities ($102.20 on 17 August 2010) is 1 and they hold 2 securities.

***Distribution of shareholdings***

| Ranges | Investors | Number | % issued capital |
|---|---|---|---|
| 1 to 1,000 | 1,526 | 470,528 | 32.66 |
| 1,001 to 5,000 | 124 | 281,189 | 19.52 |
| 5,001 to 10,000 | 11 | 75,303 | 5.23 |
| 10,001 to 100,000 | 11 | 370,785 | 25.74 |
| 100,001 and over | 2 | 242,823 | 16.86 |
| **Total** | **1,674** | **1,440,628** | **100.00** |

## Voting rights of reset preference shareholders

Reset preference shareholders are entitled to vote in limited circumstances, in which case these shareholders will have the same rights as to the manner of attendance and to voting as ordinary shareholders, with one vote per reset preference share.

The limited circumstances are set out in the Information Memorandum dated 16 August 2001.

## Convertible preference shares – top 20 shareholders

| Name | Number | % issued capital |
|---|---|---|
| UBS Wealth Management Australia Nominees Pty Ltd | 193,182 | 2.63 |
| RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C> | 179,065 | 2.44 |
| Questor Financial Services Limited <TPS RF A/C> | 160,903 | 2.19 |
| HSBC Custody Nominees (Australia) Limited | 160,062 | 2.18 |
| J P Morgan Nominees Australia Limited | 103,537 | 1.41 |
| UCA Cash Management Fund Ltd | 100,000 | 1.36 |
| HSBC Custody Nominees (Australia) Limited – A/C 2 | 89,490 | 1.22 |
| UBS Nominees Pty Ltd | 84,103 | 1.14 |
| National Nominees Limited | 82,991 | 1.13 |
| Cogent Nominees Pty Limited | 53,584 | 0.73 |
| Koll Pty Ltd | 50,000 | 0.68 |
| Australian Executor Trustees Limited <No 1 Account> | 45,291 | 0.62 |
| BKI Investment Company Limited | 40,000 | 0.54 |
| Milton Corporation Limited | 40,000 | 0.54 |
| The Australian National University | 40,000 | 0.54 |
| RBC Dexia Investor Services Australia Nominees Pty Limited <NMSMT A/C> | 38,840 | 0.53 |
| ABN AMRO Clearing Sydney Nominees Pty Ltd <Next Custodian A/C> | 37,860 | 0.52 |
| Sandhurst Trustees Ltd <JM Asset Management A/C> | 37,301 | 0.51 |
| G James Australia Pty Ltd | 33,800 | 0.46 |
| Washington H Soul Pattinson and Company Limited | 33,000 | 0.45 |

The number of security investors holding less than a marketable parcel of 6 securities ($99.93 on 17 August 2010) is 0.

### *Distribution of shareholdings*

| Ranges | Investors | Number | % issued capital |
|---|---|---|---|
| 1 to 1,000 | 17,321 | 3,633,852 | 49.44 |
| 1,001 to 5,000 | 716 | 1,423,282 | 19.36 |
| 5,001 to 10,000 | 40 | 301,980 | 4.11 |
| 10,001 to 100,000 | 38 | 1,194,137 | 16.25 |
| 100,001 and over | 5 | 796,749 | 10.84 |
| **Total** | **18,120** | **7,350,000** | **100.00** |

## Voting rights of convertible preference shareholders

Convertible preference shareholders are entitled to vote in limited circumstances, in which case these shareholders will have the same rights as to the manner of attendance and to voting as ordinary shareholders, with one vote per convertible preference share.

The limited circumstances are set out in the Supplementary Prospectus dated 4 June 2008.

## Share registry

Shareholders can obtain information about their shareholdings online or by contacting the Company's share registry, Link Market Services Limited (Link).

***Link Market Services Limited***

Level 15, 324 Queen Street Brisbane Qld 4000 Australia

Level 12, 680 George Street Sydney NSW 2000 Australia

*Mailing address*

PO Box A50 Sydney South NSW 1235 Australia

*Phone* 1300 882 012 (within Australia)
+61 2 8280 7450 (outside Australia)

*Fax* 02 9287 0303

*Email* suncorp@linkmarketservices.com.au

*Website* www.linkmarketservices.com.au

Shareholders can contact the share registry directly by phone or online by going to Link's website, or on the Suncorp website at www.suncorpgroup.com.au for a direct link to the share registry (see Securities Information/Share Registry Services).

## Changing shareholder details

Shareholders sponsored by a broker (CHESS) should advise their broker of their change of address. Issuer sponsored holders are able to change their address via Link's website (some conditions apply), or by notifying the registry.

Using their Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and other requested details, shareholders are able to make the following changes online:

– register an email address for dividend advices
– receive notices of meeting, notification of availability of annual reports and other shareholder communications
– view details of shareholdings
– obtain and complete forms such as a direct credit application form to elect to have dividends paid direct to their bank, building society or credit union account.

The Company encourages shareholders to have cash dividends credited directly. This is a more convenient and secure way to receive dividends, and saves paper and postage costs.

## Dividend Reinvestment Plan

Shareholders can reinvest all or part of their dividends in Suncorp shares, with no brokerage or transaction costs. There is no minimum or maximum limit for participation. Shareholders can participate in the scheme, vary their participation or withdraw from the Dividend Reinvestment Plan at any time. Further information is available on the Suncorp website or by contacting the share registry.

## Dividend history

| Year | Type | Amount |
|---|---|---|
| 1997 | Interim | 18c |
| | Final | 22c |
| 1998 | Interim | 22c |
| | Final | 22c |
| 1999 | Interim | 22c |
| | Final | 22c |
| 2000 | Interim | 22c |
| | Final | 24c |
| 2001 | Interim | 24c |
| | Final | 28c |
| 2002 | Interim | 25c |
| | Final | 29c |
| 2003 | Interim | 26c |
| | Final | 30c |
| 2004 | Interim | 30c |
| | Final | 40c |
| 2005 | Interim | 42c |
| | Final | 45c |
| | Special | 75c |
| 2006 | Interim | 47c |
| | Final | 50c |
| 2007 | Interim | 52c |
| | Final | 55c |
| 2008 | Interim | 52c |
| | Final | 55c |
| 2009 | Interim | 20c |
| | Final | 20c |
| 2010 | Interim | 15c |
| | Final | 20c |

## Annual report mailing

Changes in legislation have removed the obligation to mail an annual report to shareholders. Companies can now publish their annual report on their website or distribute the annual report electronically. Shareholders may also opt to receive a printed copy.

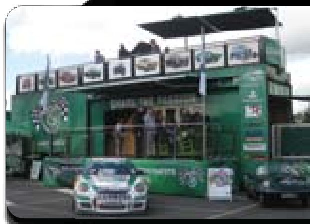
To change an election, or opt in to receive communications electronically, please contact Link.

## Shareholder offers

From time to time the Company will make special offers available to shareholders. Details of the offers will be published on www.suncorpgroup.com.au.

# Glossary

| Item | Definition |
|---|---|
| APRA | APRA stands for the Australian Prudential Regulation Authority, which is the prudential regulator of banks, insurance companies, superannuation funds, credit unions, building societies and friendly societies. |
| Black-Scholes model | A Black-Scholes model takes as input current prices, length of time until the option expires, an estimate of future volatility, and the risk-free rate of return to price equity options. |
| Dividend yield | Dividend per share divided by the price per share. |
| Long-tail and short-tail insurance | Insurance products can be categorised as short-tail or long-tail. In general terms, this name stems from the length of time (the tail) that it takes for a claim to be made and settled. For short-tail insurance products, claims are usually known and settled within 12 months. For long-tail insurance products, claims may not even be reported within 12 months, and settlements can take many years. |
| Monte Carlo simulation | A method for iteratively evaluating a deterministic model using sets of random numbers as inputs. This method is often used when the model is complex, non-linear, or involves more than just a couple of uncertain parameters. |
| Net interest margin | Net interest income divided by average interest-earning assets. |
| Net interest spread | The difference between the average interest rate on average interest-earning assets and the average interest rate on average interest-bearing liabilities. |
| Outstanding claims | All unpaid claims and related claims handling expenses relating to claims incurred prior to the reporting date. |
| Risk-weighted assets | Total of the carrying value of each asset class multiplied by their assigned risk weighting, as defined by APRA. |



www.suncorpgroup.com.au

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