Suncorp-Metway Ltd
and subsidiaries
ABN 66 010 831 722

Directors' report and consolidated financial report

30 June 2009

Suncorp-Metway Ltd and subsidiaries

ABN 66 010 831 722

Directors' Report

30 June 2009

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 2009 and the auditor's report thereon.

Content of directors' report **Page**

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 60
Non-executive
Chairman Audit 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 Council of Governors of the Cerebral Palsey Foundation.

Listed company directorships held since 1 July 2006

Company Name	Appointed	Resigned
Abacus Property Group	14.02.07	
GWA International Limited	21.02.07	
Arana Therapeutics Limited *(formerly Peptech Limited)*	10.08.04	28.12.07
Reinsurance Group of America Inc. (NYSE)	26.05.04	

Dr Ian D Blackburne
MBA, PhD, BSc (First Class Hons)
Age 63
Non-executive director
Chairman Risk Committee

Director since August 2000. Dr Blackburne is Chairman of CSR Limited and a director of Teekay Corporation. 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.

Listed company directorships held since 1 July 2006

Company Name	Appointed	Resigned
CSR Limited	01.09.99	
Symbion Health Limited *(formerly Mayne Group Limited)*	01.09.04	28.04.08
Teekay Corporation (NYSE)	08.09.00	

Paula J Dwyer
BComm, FCA, FAICD, FFin
Age 48
Non-executive
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 Suncorp. She is also a director of TABCORP Holdings Limited, where she is chairman of the audit committee and Babcock & Brown Japan Property Management Limited where she is chairman of the audit risk and compliance committee. Ms Dwyer is a member of the Takeovers Panel and Vice President of the Baker Heart Research Institute.

Ms Dwyer is a chartered accountant by profession and during her 20-year executive career held senior positions in the securities, investment management and investment banking sectors. She was formerly a director of David Jones Limited.

Listed company directorships held since 1 July 2006

Company Name	Appointed	Resigned
TABCORP Holdings Limited	30.08.05	
David Jones Limited	25.11.03	01.12.06
Babcock & Brown Japan Property Trust	19.02.05	

Dr Cherrell Hirst AO
MBBS, BEdSt, DUniv (Hon), FAICD
Age 64
Non-executive director
Member Risk and Remuneration Committees

Director since February 2002. Dr Hirst is a medical doctor and was a leading practitioner in the area of breast cancer diagnosis. She is Deputy Chairman of Queensland BioCapital Funds Pty Ltd, a director of Peplin Inc., 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 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 2006

Company Name	Appointed	Resigned
Peplin Inc.	17.08.00	
Impedimed Limited	01.09.05	
Tissue Therapies Limited	30.06.09	

Martin D E Kriewaldt
BA, LLB (Hons), FAICD
Age 59
Non-executive director
Member Audit Committee

Director since 1 December 1996, Mr Kriewaldt was also a director of the Suncorp Group from 1990 and Chairman at the time of the merger that formed the Suncorp-Metway Limited Group 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.
Mr Kriewaldt also provides advice to Allens Arthur Robinson and Aon Holdings Australia Limited.

Listed company directorships held since 1 July 2006

Company Name	Appointed	Resigned
Arana Therapeutics Limited *(formerly Peptech 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 (Group)	16.04.02	

Ewoud J Kulk
BEcon
Age 63
Non-executive
Member Risk Committee

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

Listed company directorships held since 1 July 2006

Company Name	Appointed	Resigned
Nil		

Former Managing Director and Chief Executive Officer

John F Mulcahy
PhD (Civil Engineering), BE (First Class Hons)
Age 59
Director from 6 January 2003 to 2 March 2009.

Mr Mulcahy previously held a number of executive roles at the Commonwealth Bank and, prior to that, was Chief Executive of Lend Lease Property Investment Services and Chief Executive of the Civil & Civic division.
Member of the Business Council of Australia, the Australian Bankers Association Council and the Future Fund Board of Guardians. He is also a director of the Great Barrier Reef Research Foundation since 2006.

Listed company directorships held since 1 July 2006

Company Name	Appointed	Resigned
Suncorp-Metway Ltd	06.01.03	02.03.09

Geoffrey T Ricketts
LLB (Hons)
Age 63
Non-executive

Director since March 2007. Mr Ricketts was a director of Promina Group Limited at the date of merger with Suncorp. He is Chairman of Lion Nathan Limited and a non-executive director of Spotless Group Limited, Taylors Group Limited (NZ), 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 ten years.

Listed company directorships held since 1 July 2006

Company Name	Appointed	Resigned
Lion Nathan Limited	13.06.88	
Spotless Group Limited	08.07.96	
Taylors Group Limited (NZX)	13.01.92	

Christopher Skilton
BSc (Econ) (Hons), ACA (Eng & Wales)
Age 55
Executive director
Acting Managing Director and Chief Executive Officer since 2 March 2009. Director since 13 November 2002. Chris Skilton joined Suncorp 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, 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. Whilst still employed with AIDC Chris did a stint as acting CEO of the Australian Submarine Corporation, one of Australia's largest and most complex engineering projects. (AIDC was a major shareholder in ASC). His wide professional experience also includes executive positions with Security Pacific Australia and the Barclay Group of Companies. He has over 25 years' direct experience in various senior roles in the finance sector.

Listed company directorships held since 1 July 2006

Company Name	Appointed	Resigned
Nil		

John D Story
BA, LLB, FAICD
Age 63
Non-executive Chairman
Chairman Nomination Committee; 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 the Australian Institute of Company Directors and a director of CSR Limited. Mr Story was recently appointed Chancellor of the University of Queensland and is a Commissioner of the Public Service Commission (Queensland).

Listed company directorships held since 1 July 2006

Company Name	Appointed	Resigned
CSR Limited	12.04.03	
TABCORP Holdings Limited	29.01.04	

Dr Zygmunt E Switkowski
BSc (Hons), PhD, FAICD
Age 61
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 2006

Company Name	Appointed	Resigned
Healthscope Limited	19.01.06	
TABCORP Holdings Limited	02.10.06	

Leo E Tutt
FCA, FAIM, FAICD
Age 71
Non-executive
Member Audit and Remuneration Committees

Director since March 2007. Mr Tutt was Chairman of Promina Group Limited at the date of merger with Suncorp 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 or 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 2006

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.

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 2009 were:

	Board of Directors		Audit Committee		Risk Committee		Remuneration Committee	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
J D Story	20	20	6	6	8	8	4	4
J F Mulcahy	14	13	5	5 (1)	5	5 (1)	-	-
W J Bartlett	20	20	6	6	-	-	-	-
Dr I D Blackburne	20	19	-	-	8	8	-	-
P J Dwyer	20	20	6	6	-	-	-	-
Dr C Hirst AO	20	20	-	-	8	8	4	3
M D E Kriewaldt	20	18	6	6	-	-	-	-
E J Kulk	20	20	-	-	8	8	-	-
G T Ricketts	20	19	-	-	-	-	-	-
C Skilton	20	20	6	6 (1)	8	8 (1)	-	-
Dr Z E Switkowski	20	19	-	-	8	8	4	4
L E Tutt	20	18	6	6	-	-	4	3

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 and Risk Committee meetings at the invitation of those committees. In accordance with accepted good governance practice there are no management representatives appointed as members of the Audit Committee.

4 Remuneration Report – audited

The Group Remuneration Report for 2009, as presented below, has been prepared for consideration by shareholders.

4.1 2009 Remuneration at a glance

The year under review was a difficult year with many factors affecting the overall financial outcomes. Shareholders would rightly expect that remuneration outcomes would reflect reality, where reduced profitability has had a significant impact on distributable returns and the overall company valuation. The remuneration frameworks in place, the formulae that produce remuneration outcomes, and Board discretionary judgements, have combined so that no short term incentive will be paid to Executives this year, nor will salaries or directors' fees be adjusted upwards. While this may be considered a harsh outcome given the confluence of external events over the year in review, it is entirely consistent with Suncorp's remuneration strategy and philosophy.

Executive pay unchanged since 2007

In the 2009 financial year, after assessing market practice and salary movements, the Suncorp Board has determined that there will be no increase to executives' fixed pay. As a result, except for those executives whose responsibilities have increased, fixed salary levels remain the same as those approved in April 2007 at the time of the Promina merger.

No Executive bonus payments in 2009

Based on the Group's financial performance for the year ended 30 June 2009, there will be no short-term incentive (STI) payments made to executives in relation to this performance year.

Non-executive directors' fees unchanged since 2007

The non-executive directors' current fee structure, as outlined in this report, has not changed since July 2007.

Remuneration strategy under review

As a part of the normal annual review cycle during the 2010 financial year, Suncorp will be undertaking a review of the executive remuneration strategy and its underlying components to ensure the approach reflects business needs, shareholder views and contemporary market practice (refer to section 4.3.2 for further details on the remuneration strategy review).

4.2 Board oversight of remuneration

4.2.1 Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration arrangements of executives.

The Remuneration Committee comprises four independent non-executive directors (NEDs). Further information on this committee's role, responsibilities and membership is contained in the Corporate Governance Statement.

4.2.2 Remuneration approval process

The **Board** approves, having regard to the recommendations made by the Remuneration Committee:

- the remuneration of the CEO and executive directors;
- the remuneration arrangements for the NEDs; and
- all awards made under the long-term incentive (LTI) plan.

Executive directors are not present during discussions on their remuneration.

The **Remuneration Committee** approves, having regard to the recommendations made by the CEO:

- the remuneration arrangements and levels of executives;
- the Group STI pool; and
- the annual Group total employment cost (TEC, comprising base salary, superannuation contributions and the value of other benefits) increase pool.

The CEO approves:

- the performance targets of executives for the variable remuneration component of their reward; and
- the remuneration and performance targets of Executive General Managers/General Managers, based on the recommendations of the Group Executives.

Remuneration amounts for levels below Executive General Managers and General Managers must be within the total pools approved for the Group, and are approved by the 'Manager Once Removed' (i.e. manager of the employee's manager).

4.3 Remuneration strategy

4.3.1 Group remuneration strategy

Suncorp's remuneration strategy is designed to attract, motivate and retain employees by identifying and rewarding high performers, and by recognising the contribution of each employee to business outcomes.

As part of this strategy, several principles drive remuneration decisions:

- Remuneration is one component of the overall employee value proposition.
- Remuneration practices will align to and support the Group's vision, business strategy and the enhancement of shareholder value.
- Remuneration practices will drive sustained performance improvement on an individual, business unit and corporate level.
- A component of an individual's remuneration will vary depending on performance (variable remuneration) and the other component will be fixed.
- Through variable remuneration opportunities, individuals will be rewarded based on their own performance, as well as their contribution to business unit and corporate outcomes.

Group positioning policy

The Group's remuneration strategy is to position TEC close to the median of its defined talent market to ensure a competitive offering. Total reward opportunities above the market median may be available where the individual achieves outperformance in respect of variable remuneration performance measures, to promote performance differentiation.

"Outperformance" refers to exceeding targets set in relation to STI payments as well as achieving maximum vesting of LTI awards (refer to variable remuneration section 4.5.2).

4.3.2 Remuneration strategy under review in financial year 2010

During the 2009 financial year, the Government and the Australian Prudential Regulatory Authority (APRA) introduced various proposals affecting employee remuneration. In addition, the Productivity Commission has been charged by the Government to undertake a review of the framework and structures of executive and director remuneration of disclosing entities, with a draft report anticipated in the second half of 2009.

As a result, during the financial year 2010, the Group will be undertaking a comprehensive review of its remuneration strategy in response to the changing remuneration landscape.

4.4 Executive remuneration framework

In the 2009 financial year, the executive remuneration framework comprised:

- fixed remuneration (denoted by TEC); and
- variable remuneration.

The table below provides a summary of each component, including vehicle and purpose, as well as the link to performance for each variable remuneration component.

Remuneration component	Vehicle	Purpose	Link to performance
FIXED REMUNERATION *Further details are provided in section 4.5.1.*	▪ Referred to as Total Employment Cost. ▪ Consists of base salary, superannuation contributions and the value of other benefits. ▪ Executives can use TEC to contribute further to their superannuation or to acquire Suncorp shares.	▪ Reflects the responsibility of the individual's role.	
VARIABLE REMUNERATION *Further details are provided in section 4.5.2.*	▪ Consists of both STI and LTI components.	▪ Provides the link between remuneration and short and longer term performance outcomes.	▪ Aligned to shareholder value creation, as well as objectives in relation to customers, employees and the community.
STI component *Further details are provided in section 4.5.2.1*	▪ Paid in cash, unless the executive nominates to have all or part of their award paid into superannuation or Suncorp shares.	▪ Rewards executives for their contribution to the previous year's Group and business unit outcomes.	▪ Net Profit After Tax (NPAT) is the key pool funding metric. ▪ Linked to risk-adjusted returns, customer service, leadership, and community involvement.
LTI component *Further details are provided in section 4.5.2.2.*	▪ Awards are made in Suncorp shares that vest subject to meeting pre-determined performance conditions.	▪ Rewards executives for their contribution to the creation of shareholder value over the longer term.	▪ Vesting of awards is dependent on Suncorp's relative TSR performance against a peer group.

Suncorp will re-evaluate certain practices, such the ability of individuals to sacrifice TEC and STI payments into Suncorp shares, subject to the final legislation in relation to taxation of employee equity.

4.4.1 Company performance and its link to remuneration

4.4.1.1 Company performance and its link to short-term incentives

NPAT is the key STI pool funding metric. STI payment outcomes are also linked to other Group balanced scorecard measures as listed in section 4.4., with further detail in section 4.5.2.1.

The following table outlines Suncorp's NPAT, earnings per share, dividends and share-price movements over the five-year period to 30 June 2009.

Returns to shareholders over the past 5 years

	2009 (1)	2008 (1)	2007 (1)	2006 (1)	2005 (1)
Net profit attributable to equity holders of the parent Company ($m)	348	583	1,064	916	882
Cash earnings per share (cents)	47	75	170	161	-
Dividends per share (cents) (2)	40	107	107	97	87
Share price ($) as at 30 June	6.70	13.04	20.17	19.35	20.11

Notes
(1) Amounts were calculated in accordance with Australian equivalents to IFRS ("AIFRS") – transitional arrangements apply to the 2005 year.
(2) 2005 excludes the special dividend of 75 cents per share.

The Remuneration Committee's assessment of the Group's financial performance for the year ended 30 June 2009 resulted in no STI payments being made to Group Executives in respect of the financial year.

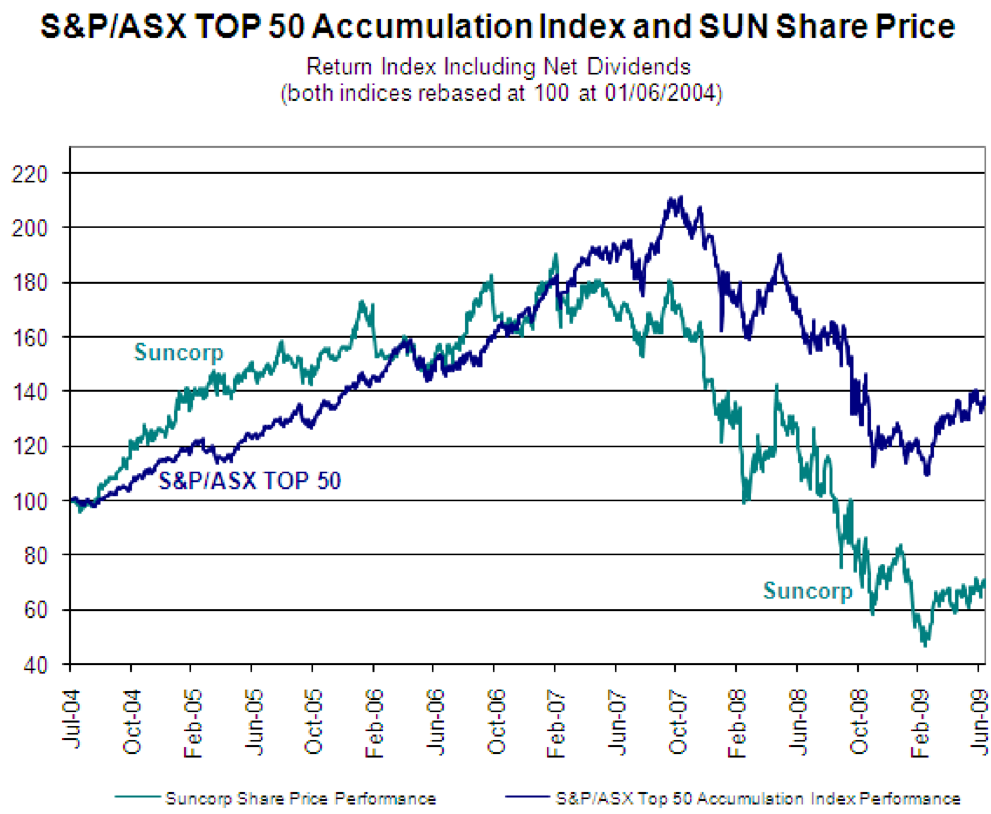
4.4.1.2 Company performance and its link to long-term incentives

LTI awards are provided through the Executive Performance Share Plan (EPSP). Vesting of awards are based on relative TSR performance against the top 50 ASX-listed companies in the S&P/ASX 100, excluding property trusts (refer to section 4.5.2.2 for EPSP details).

During the financial year ended 30 June 2007, the Board agreed to waive the performance criteria for the 2004 and 2005 offers for participants employed at the date of the Promina merger. It was considered that the Promina transaction, which was announced in October 2006, had the potential to impact the retention of key executives, especially at a time of full employment within the financial services market. As a result of this decision, on 30 September 2008, 100% vesting resulted for the 2005 offer (and for the additional grant of shares made on 17 April 2007). Further details regarding the shares that have been granted, vested and lapsed under the EPSP are provided in section 4.8.2.

The following graph shows Suncorp's TSR performance relative to the S&P/ASX Top 50 Accumulation Index over the five years to 30 June 2009.

4.4.1.2 Company performance and its link to long-term incentives (continued)



4.5 Executive arrangements for the year ended 30 June 2009

4.5.1 Total employment cost

TEC is reviewed each year in light of the Group's positioning policy, competitor practices and other business and role critical factors. External remuneration consultants support the Remuneration Committee in assessing market practice and movements to ensure TEC is in line with comparable roles.

4.5.1.1 Nil increase in executive TEC in 2009

In the 2009 financial year, after assessing market practice and movements in TEC, and reviewing competitor practices, the Board determined that it was not appropriate to increase executives' TEC.

As a result, TEC levels remain the same as those approved by the Board in April 2007.

Exceptions – increase in role scope

In August 2008 David Foster, formerly Group Executive Retail Banking, became Group Executive Banking following the merger of Suncorp's Retail and Business Banking divisions. David Foster received a TEC increase of $50,000 per annum in recognition of this larger role and its additional responsibilities.

Similarly, Chris Skilton, former Chief Financial Officer, received a higher duties allowance of $500,000 per annum to reflect the responsibilities of his role as Acting Chief Executive Officer (Acting CEO) with effect from 2 March 2009 until he ceases the Acting CEO role.

In addition, Clayton Herbert, Acting Chief Financial Officer, received a higher duties allowance of $300,000 per annum to reflect the responsibilities of his role as Acting Chief Financial Officer (Acting CFO) with effect from 2 March 2009 until he ceases the Acting CFO role.

4.5.2 Variable remuneration

An individual's variable remuneration opportunity is dependent on their role accountability, the Group positioning policy, and the individual's ability to impact business performance.

Variable remuneration is subject to both financial and non-financial performance measures.

4.5.2.1 Short-term incentives

Overview

The Group operates an annual STI program that applies to executives and their teams. Target STI opportunities for executives are typically 100% of TEC, according to seniority and in accordance with market practices.

STI pool

The size of the Suncorp 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 pre-agreed profit targets in the performance period, which are 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 conditions

Executive performance is assessed relative to pre-determined objectives using a balanced scorecard system. This system was chosen to focus executives on achieving a balance of financial and non-financial objectives, and to promote sustainable, long-term improvement in shareholder returns.

The balanced scorecard system operates as follows:

- At the beginning of the year, performance objectives of the Group are agreed under the four key pillars of shareholder, customer, employee and community, to create the Group balanced scorecard.
- To take into account shareholder interests, the scorecard includes risk-adjusted financial measures that incorporate the cost of capital.
- Non-financial measures are considered critical, and include measures such as employee engagement and demonstration of leadership.
- The Group scorecard determines the CEO's individual scorecard. Business unit and divisional scorecards are cascaded from the Group scorecard, and determine executives' individual scorecards.
- For each scorecard measure, a "target" level is defined to allow actual performance (including outperformance) to be assessed at the conclusion of the performance year against pre-defined transparent and measurable targets.
- The CEO and the Remuneration Committee assess executives' performance at the end of the year by reviewing the relevant scorecards, and assessing actual outcomes relative to pre-determined performance levels. Executives are also assessed against the Group's values which are outlined in the Suncorp Code of Conduct. The Code of Conduct can be found on the Suncorp website at www.suncorpgroup.com.au.

Service conditions

To be considered for an STI payment, individuals must have completed three months' service within the financial year and remain in employment at the date of payment.

Key performance hurdle not met in 2009

As noted in section 4.4.1.1, the Remuneration Committee confirmed that, based on the Group's financial performance for the year ended 30 June 2009, there would be no STI payments made to executives in relation to this performance year.

4.5.2.2 Long-term incentives

LTIs are designed to recognise the contribution of executives to the creation of shareholder value over the long-term. LTI awards are provided through the EPSP.

Depending on the outcomes of the final legislation in respect of the taxation treatment of equity awards, the Board may decide to review the EPSP in the 2010 financial year.

Eligibility

The EPSP is offered to executives, as well as other key talent, where there is direct individual impact on the Group's long-term performance.

Vehicle

Under the EPSP, executives are awarded Suncorp shares which only vest subject to meeting performance measures that promote outperformance of Suncorp's relevant market. When offers are made, the shares are bought on market to avoid any dilutionary impact that issuing new ordinary shares would have on Suncorp's share price.

The value of LTI granted to all Group Executives is determined based on 100% of TEC to encourage a common focus on Group performance. To determine the number of shares granted, the value of LTI is divided by the 5-day Volume Weighted Average Share Price (VWAP) at the date of grant. The CEO's LTI allocation is based on a number of shares amounting to a specific grant value.

Details of the EPSP shares granted in this or previous financial years for each KMP are detailed in section 4.8.2.

Performance conditions

Performance for awards under the EPSP is measured against Suncorp's TSR relative to a pre-determined group of its peer companies (Peer Group). TSR represents the growth in the share price, plus dividends reinvested (expressed as a percentage) over the relevant performance period.

Relative TSR was chosen for the following reasons:

- the use of TSR provides a direct link between the wealth created for shareholders relative to other similar shareholdings, and executives' long-term rewards; and
- the relative measure minimises the effects of market cycles. For example, if TSR performance is below the median of the Peer Group, even in a rising market and with a rising share price, executives are not rewarded.

The Peer Group chosen for relative TSR performance assessment is the top 50 ASX-listed companies in the S&P/ASX 100, excluding property trusts. This allows Group performance to be compared against companies which are both similar in size, with similar investment profiles to Suncorp.

Shares vest based on the following schedule:

Relative TSR performance outcome	Percentage of award that will vest
Below the 50^{th} percentile (i.e. below median performance)	0%
At the 50^{th} percentile (median performance)	50%
Between the 50^{th} and 75^{th} percentiles	2% of the award vests for each full 1% increase in Suncorp's ranking against the peer group
At or above the 75^{th} percentile	100%

TSR performance is monitored by an independent provider at 30 June each year during the performance period, every six months throughout the re-test period (see below), and upon the termination of an Executive's contract of employment where the Board determines that awards can vest.

4.5.2.2 Long-term incentives (continued)

Performance period

The performance period for each award of shares is outlined in the table below:

Year 0 "Awards made"	End Year 3 "Initial period"	End Year 3 to End Year 5 "2-year Retest period"	End Year 5
▪ The performance period commences on the date of the award.	▪ The first measurement date occurs. ▪ The Executive can elect to vest their shares on the basis of the performance or to extend the performance period for another two years. ▪ If performance measurement at the end of the initial period is accepted by the Executive, performance testing will cease and any shares that do not vest are forfeited.	▪ Where an Executive elects to re-test, TSR is measured every six months (measurement dates) (i.e., four measurement dates). ▪ If an Executive has elected to re-test the shares, and then leaves before the end of the re-test period, the Executive forfeits all shares under that grant.	▪ At the end of the re-test period, the most favourable TSR outcome during the re-test period is applied to unvested shares. ▪ After the re-test period, no further elections to re-test are available, and shares that do not vest are forfeited.

The performance period:

- encourages executives to strive continually for improved relative TSR outcomes; and
- further enhances retention of executives beyond the initial three-year performance period, where the Executive chooses to apply further performance testing.

Throughout the performance period, the unvested shares are held in trust and the trustee receives dividends and pays tax on those dividends. The after-tax amount is allocated to executives at the same time and in the same proportion as the underlying shares.

The Board has ultimate discretion to allow vesting of any awards.

Termination provisions

The CEO can recommend to the Board that an individual's award vests post-termination (or upon termination), where the circumstances are deemed to be for a 'qualifying reason' (such as retirement, redundancy, death or permanent disability or another reason as determined by the Board), subject to the relevant performance conditions being achieved. If an individual does not qualify, all shares will be forfeited under the rules.

The Board retains the ultimate discretion to allow vesting at or post-termination.

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 time from the grant date to the date of termination. Where post-employment vesting occurs, awards are generally tested against the original performance period.

In the 2009 financial year, the Board exercised its discretion to allow LTI awards for two former employees to vest post-termination.

4.5.3 Contractual arrangements of executives

4.5.3.1 Chief Executive Officer – incoming

Patrick Snowball was announced as incoming Managing Director and CEO of Suncorp on 1 July 2009. Mr Snowball will commence as Managing Director and CEO effective 1 September 2009.

Mr Snowball's contract of employment provides for a four-year term (Term) with Suncorp-Metway Ltd. At the expiry of the Term, the parties can agree to extend the Term for a further twelve months.

The following specific remuneration arrangements exist under Mr Snowball's contract of employment as disclosed to the ASX on 1 July 2009:

- For the 2010 financial year, Mr Snowball will receive TEC of $2,100,000 per annum (including superannuation contributions), less amounts required to be deducted for taxation purposes. TEC is reviewed annually in accordance with Suncorp's policies.
- For the period 1 September 2009 to 1 September 2013, Mr Snowball's target STI opportunity is 100% of TEC and his maximum STI opportunity is 150% of TEC. Any entitlement to an STI is at the discretion of the Board having regard to performance measures and targets developed in consultation with Mr Snowball.

  50% of any STI awarded 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).
- Mr Snowball is eligible to participate in Suncorp's LTI plan on terms determined by the Board, subject to receiving any required or appropriate shareholder approval.

  Mr Snowball's full LTI entitlement for the 2010, 2011 and 2012 financial years will comprise an initial grant of 900,000 rights to shares in Suncorp (Initial Grant) under Suncorp's LTI plan. The Initial Grant will be made in three equal tranches as soon as practicable after 1 September 2009. Vesting of the Initial Grant will be subject to performance hurdles tested over a three to five year period.

Additional benefits include:

- Air travel tickets for Mr Snowball and his family to return to the United Kingdom will be provided on one occasion each year during the term of the contract.
- For Mr Snowball's relocation, reimbursement of out-of-pocket expenses to an amount of $250,000, a lump sum payment of $250,000 (less applicable tax), and the provision of temporary accommodation and motor vehicle for a period of up to four months after Mr Snowball and his family arrive in Australia.
- In certain circumstances, Suncorp will also reimburse reasonable costs up to $125,000 incurred in repatriating Mr Snowball and his family to the United Kingdom at the conclusion of his employment.

4.5.3.1 Chief Executive Officer – incoming (continued)

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, Suncorp may make a payment in lieu of notice of all or part of any notice period, calculated based on a percentage of Mr Snowball's TEC.	Board discretion*	Board discretion*
Where individual becomes incapacitated, is of unsound mind or health deteriorates to a certain degree	9 months		Board discretion*	Board discretion*
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

* Any deferred STI award and any unvested awards under the Initial Grant 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, the number of awards that will continue to be available depends 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 LTIs may vest pro rata.

Minimum shareholding requirement

In order to increase the CEO's alignment with shareholder interests, Mr Snowball must, as soon as reasonably practicable after 1 September 2009 (but at a time permitted by applicable Suncorp policies), acquire at his own expense, such number of Suncorp shares as most closely represents $500,000 at the time of acquisition.

4.5.3.2 Group Executives

Group Executives are employed by either Suncorp Metway Staff Pty Ltd or Vero Insurance New Zealand Limited, wholly owned subsidiaries of Suncorp, under a standard employment contract, with no fixed term.

Suncorp may terminate executives' contracts 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. The exceptions are Mr Blucher and Mr Bell whose payments in lieu of notice are based on a percentage of TEC.

4.5.3.2 Group Executives (continued)

Suncorp's policy in relation to the terms and conditions of Executive contracts is outlined in the table below.

Group Executive	Notice on resignation (employee initiated)	Notice on termination (employer initiated)	Redundancy remuneration (including notice)	STI payment on termination	Pro-rata LTI on termination	Continued participation in EPSP
Suncorp's policy position						
All Group Executives	3 months	12 months	12 months	Board discretion	If qualifying reason	Board Discretion
Exceptions						
Roger Bell[1]	3 months	116 weeks	116 weeks	Board discretion	If qualifying reason	Board Discretion
Robert Belleville (retired)	3 months	18 months (if terminated within first 24 months of employment with Suncorp)	18 months (if terminated within first 24 months of employment with Suncorp)	Board discretion	If qualifying reason	Board Discretion
Mark Blucher	3 months	12 months	18 months	Contractual entitlement to average bonus	If qualifying reason	Board Discretion
Geoff Summerhayes	3 months	12 months	Greater of 12 months or total benefit under Suncorp redundancy policy (maximum of 75 weeks including notice)	Board discretion	If qualifying reason	Board Discretion

1. 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.

Notice on termination is not payable in the event of serious misconduct (as defined in the contract) by the Executive. Payment on termination will include payment of accrued annual leave (and, where appropriate, long service leave in the case of redundancy).

Payments applicable to outgoing Group Executives

The following arrangements applied to outgoing Group Executives in office during the 2009 financial year:

- Robert Belleville received a termination payment of $1,370,454 (gross), in accordance with the terms of his heritage Promina employment contract.

  The Board deemed Mr Belleville's termination to be for a 'qualifying reason' as defined in section 4.5.2.2. As a consequence, the Board permitted Mr Belleville to retain all grants made under the EPSP in 2007 (April 2007, October 2007) and 2008. The number of unvested shares held for Mr Belleville is 29,309 for the April 2007 grant, 40,296 for the October 2007 grant and 79,104 for October 2008.

  For Mr Belleville's unvested shares, the TSR hurdle will be assessed under the original grant terms. The Group is required to expense the full entitlement under the 2007 and 2008 offers, although Mr Belleville has not yet received the awards and the awards may not necessarily vest.

4.5.3.2 Group Executives (continued)

Payments applicable to outgoing Group Executives (continued)

- Dennis Fox received a termination payment of $1,050,000, STI bonus payment of $330,000, retention bonus payment of $175,000 and an amount of $90,000 was paid into Mr Fox's superannuation fund as an ex-gratia bonus (less applicable taxation). Mr Fox received all TEC owing up to the termination date as well as all accrued statutory leave entitlements.

  The Board deemed Mr Fox's termination to be for a 'qualifying reason' as defined in section 4.5.2.2 and permitted Mr Fox's EPSP awards (April 2007, October 2007) to be assessed under the original grant terms. Subsequent to this, a trigger event occurred whereby Mr Fox was required to exit the plan. Consequently, the EPSP awards were performance tested at the trigger event to determine the level of vesting. Based on the TSR results, no vesting occurred.

In determining the termination provisions for incoming Group Executives, Suncorp will consider the impact of the new legislative requirements proposed by the Government and the prescribed termination cap of one times average base salary, above which shareholder approval is required.

4.5.3.3 Chief Executive Officer – outgoing

John Mulcahy, the outgoing CEO, joined Suncorp as Chief Executive Officer on 6 January 2003 and was employed by Suncorp-Metway Ltd. His contract was renewed on 7 June 2007 as a rolling contract. Mr Mulcahy resigned on 2 March 2009.

The Board deemed Mr Mulcahy's termination to be for a 'qualifying reason' as defined in section 4.5.2.2. As a consequence and in accordance with the terms of his 2007 employment contract, Mr Mulcahy received a payment upon termination of $2,100,000 (less applicable taxation), comprising 12 months' TEC, and a relocation allowance. Mr Mulcahy also received a payment of $102,408 for accrued but untaken statutory leave.

After assessing the Group's performance, the Remuneration Committee and Board determined that no STI payment would be made to Mr Mulcahy in respect of the 2009 financial year.

As the Board deemed Mr Mulcahy's termination to be for a 'qualifying reason', Mr Mulcahy's unvested 2004 and 2005 LTI awards were tested at the termination date, and his unvested 2006, 2007 and 2008 awards were allowed to continue post-termination, subject to the relevant performance conditions (refer below).

2004 and 2005 awards

- Under the terms of Mr Mulcahy's renewed 2007 employment contract, it was agreed the performance hurdles waiver for the 2004 and 2005 awards would be postponed until 30 September 2009 and 30 September 2010 respectively. The share-based payment expense was accelerated as a result of the performance conditions waiver.
- As Mr Mulcahy will not be employed at those dates, the performance conditions waiver was no longer applied. TSR performance for the 2004 and 2005 awards was assessed on Mr Mulcahy's termination date.
- As TSR performance did not meet the minimum required hurdle of median performance, the 2004 and 2005 awards did not vest.
- The accelerated accounting expense for the 2004 and 2005 cannot be reversed, despite the performance conditions being reinstated and the market vesting condition not having been met.

2006, 2007 and 2008 awards

- Mr Mulcahy's LTI awards made under the EPSP in 2006, 2007 and 2008 will remain under the original award terms, and will vest subject to the relevant performance hurdles being met.
- The TSR hurdle will be assessed under the original grant terms. The accounting expense of $3,949,467 for the 2006, 2007 and 2008 offers is required to be recognised in Suncorp's financial statements for the year ended 30 June 2009 although Mr Mulcahy has not yet received the awards and the awards may not necessarily vest (refer section 4.5.3.4).

As a result of the acceleration of the charge for share-based allocations for the 2004, 2005, 2006, 2007 and 2008 awards, Mr Mulcahy's share-based payment for the year ending 30 June 2009 is $6,167,022 (disclosed in the remuneration tables in section 4.7.2). However, Mr Mulcahy did not receive this value in the 2009 financial year as his 2004 and 2005 awards did not vest and the 2006, 2007 and 2008 awards remain unvested.

4.5.3.4 Outstanding awards

As noted above, Mr Mulcahy's LTI offers made under the EPSP in 2006, 2007 and 2008 will remain until the vesting date. For Mr Belleville, all offers made under the EPSP in 2007 and 2008 will remain until the vesting date.

Based on relative TSR performance to 30 June 2009, none of the outstanding awards are expected to vest.

4.5.4 Retention arrangements

Retention arrangements were put in place in October 2006 for executives, direct reports of the executives at the time and a small number of other key employees across the Group who were considered critical to the success of the Promina merger. The arrangements were put in place to recognise the contribution and commitment that would be required both during the acquisition and the subsequent integration of the two organisations.

No retention payments were made to Group Executives in respect of the 2009 financial year. Payments were however made in the 2009 financial year, in respect of the 2008 financial year.

No further payments will be made in respect of the retention arrangements.

4.5.5 Exceptions – interim arrangements

The following exceptions to the remuneration policy have been introduced as interim measures due to the resignation of the former CEO John Mulcahy.

- As Acting CEO, Mr Chris Skilton has received a higher duties allowance of $500,000 per annum due to his increased responsibilities. This amount was calculated by adding to Mr Skilton's 2008 TEC an amount equal to 50% of the difference between his TEC and that of the former CEO. This calculation methodology was used to take account of the shorter-term expectations of an Acting CEO relative to those of a permanent CEO.
- As Acting CEO, Mr Skilton is also eligible to earn an additional amount of $500,000 per annum ('special duties allowance'), in addition to his annual STI opportunity, subject to pre-determined performance measures. The Board has set the strategic objectives and expectations for Mr Skilton's performance in the role of Acting CEO, covering specific risk, leadership, succession planning and operational initiatives. The Board will assess Mr Skilton's performance against these key strategic objectives to determine the amount of the special duties allowance earned.
- For his role as Acting CFO, Mr Herbert has received a higher duties allowance amounting to $300,000 per annum. This amount was calculated by adding to Mr Herbert's TEC an amount equal to 50% of the difference between his TEC and Mr Skilton's TEC as CFO.

4.6 Non-executive directors' remuneration

4.6.1 Remuneration Policy

Remuneration arrangements for non-executive directors are designed to ensure that the Group can attract and retain suitably qualified and experienced directors. Arrangements are based on a number of factors including:

- requirements of the role
- size and complexity of the Group
- market practice

4.6.2 Non-executive directors' fee structure

In April 2007 the 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.
- Suncorp pays the superannuation guarantee charge ("SGC") on behalf of all eligible non-executive directors. If a director ceases to be eligible for SGC payments, the equivalent amount is paid in fees. The SGC payments for non-executive directors are included in the maximum aggregate total remuneration limit referred to above.
- The non-executive director fee structure was last reviewed in July 2007 and the approved structure is set out in the table below:

Role	Current fee p.a. *
Chairman of directors	$550,000
Audit Committee Chairman	$250,000
Risk Committee Chairman	$240,000
Non-executive director (includes fee for membership of either the Risk or Audit Committee)	$220,000
Loading for Remuneration Committee Chairman	$20,000
Loading for Remuneration Committee Member	$10,000
Loading for Representation on New Zealand company boards	$20,000

* Fees exclude Superannuation Guarantee Charge

4.6.3 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 Suncorp shares on market at pre-determined dates. The shares are fully vested and can be held in the NEDSP for up to ten years from the date of purchase or until retirement, whichever occurs first. These arrangements may change in relation to shares acquired under the NEDSP after 1 July 2009, as a result of proposed amendments to the operation of employee share plans introduced following the 2009 Federal Budget.

4.6.4 Non-executive directors' retirement benefits

Shareholders have approved a directors' retirement plan ("Plan") which entitles directors to be paid a retirement benefit based on the highest total emoluments paid to a director during any consecutive three year period. However those retirement benefit arrangements are currently being phased out in the following manner:

- The Group ceased to offer retirement benefits to non-executive directors appointed after 30 June 2003.
- Directors in office at 30 June 2003 remain contractually entitled to a retirement benefit. However those directors agreed to cap their benefit entitlement as at 30 June 2004 and amortise their respective benefits entitlement from that date, over the period they remain in office, at a rate equivalent to 20% of their annual directors' fees.
- Directors remain entitled to receive the greater of:
  - the amortised balance of their retirement benefit at the date they retire from office; or
  - an amount equal to 25% of the total emoluments they received as a director over the period from the date of their appointment as a director to 30 June 2004 (Minimum Retirement Benefit).
- In recognition of the phasing out of the retirement benefits, directors' fees were increased by 25%. For directors with accrued benefits, that increase applied from 1 July 2004 being the date of commencement for the amortisation of their retirement benefits. For directors with no accrued benefit, the increase applied from their date of appointment.

During the course of the year, the Minimum Retirement Benefit limit was reached for all participating directors, therefore no further amortisation of retirement benefits will occur.

Directors believe these arrangements meet the intent of guidance on directors' remuneration while giving appropriate recognition to directors' past service and contractual rights. As a result of the introduction of the above arrangements, the total of the directors' retirement benefits provision reduced by approximately 4% during the year.

The movement in that provision for each director, the amount of retirement benefits paid to retiring directors during the year under the terms of the Plan (if any) and full details of directors' benefits and interests are set out in the Remuneration Table in section 4.7.4.

4.7 Key Management Personnel remuneration and other disclosures

Details of the remuneration of KMP including the top five remunerated executives of the Group are set out below.

KMP of Suncorp are those persons who have authority and responsibility for planning, directing and controlling the major activities of the Group, directly and indirectly during the 2009 financial year. KMP include all directors of the Group (executive and non-executives) and all executives who report to the CEO.

4.7.1 Key management personnel

The directors of Suncorp-Metway Ltd during the 2009 financial year were as follows:

NAME	POSITION	DATE APPOINTED
Non-executive directors		
J Story (Chairman)	Non-executive Chairman	▪ Chairman: Appointed 7 March 2003 ▪ Director: Appointed 24 January 1995
W Bartlett	Non-executive director	▪ Appointed 01 July 2003
Dr I Blackburne	Non-executive director	▪ Appointed 02 August 2000
P Dwyer	Non-executive director	▪ Appointed 26 April 2007
Dr C Hirst AO	Non-executive director	▪ Appointed 08 February 2002
M Kriewaldt	Non-executive director	▪ Appointed 01 December 1996
E Kulk	Non-executive director	▪ Appointed 20 March 2007
G Ricketts	Non-executive director	▪ Appointed 20 March 2007
Dr Z Switkowski	Non-executive director	▪ Appointed 19 September 2005
L Tutt	Non-executive director	▪ Appointed 20 March 2007
Executive directors		
J Mulcahy	Managing Director/Chief Executive Officer (until 2 March 2009)	▪ Appointed 6 January 2003 ▪ Resigned 2 March 2009
C Skilton	Acting Chief Executive Officer from 2 March 2009; formerly Chief Financial Officer	▪ Appointed 13 November 2002

The KMP of the Group are as follows:

NAME	POSITION	DATE APPOINTED
In office as at 30 June 2009		
R Bell	Group Executive Vero New Zealand	▪ Appointed 30 March 2007
M Blucher[1]	Group Executive Integration	▪ Appointed 02 April 2007
D Foster	Group Executive Suncorp Bank	▪ Appointed 27 August 2008 ▪ Changed position during FY
A Harmer	Acting Chief Risk Officer	▪ Appointed 16 April 2009
C Herbert	Acting Chief Financial Officer	▪ Appointed 2 March 2009
B Inglis	Group Executive Personal Insurance	▪ Appointed 27 August 2008 ▪ Changed position during FY
S McDonald	Group Executive Strategy, People and Corporate Services	▪ Appointed 27 August 2008 ▪ Changed position during FY
M Milliner	Group Executive Commercial Insurance	▪ Appointed 01 July 2006
J Smith	Group Executive Business Technology	▪ Appointed 30 March 2007
G Summerhayes	Group Executive Suncorp Life	▪ Appointed 26 May 2008
Retired during financial year		
R Belleville	Group Executive Personal Insurance	• Appointed 30 March 2007 • Retired 29 November 2008
D Fox	Group Executive Life	• Appointed 30 March 2007 • Retired 31 July 2008

1. The contract with Mr Blucher, Group Executive Integration, will terminate effective 31 August 2009.

The remuneration table in section 4.7.2 sets out the remuneration details of the KMP and five executives across the Company who received the highest remuneration under S300A of the *Corporations Act 2001*.

4.7.2 Remuneration table 2009

Remuneration of KMP and other named executives for the year ended 30 June 2009

	Short-term benefits					Post-employment benefits	Termination	Long-term	Total excluding charge for share-based allocations
	Salary and fees	STI bonus [1]	Non-monetary benefits [2]	Other [3]	Total	Superannuation benefits	Severance pay [4]	Other [5]	
2009	$	$	$	$	$	$	$	$	$
Executive directors									
J Mulcahy	1,273,974	-	20,519	(48,285)	1,246,208	67,051	2,100,000	(173,622)	**3,239,637**
C Skilton	994,588	-	412	181,838	1,176,838	13,745	-	16,426	**1,207,009**
Other KMP and named executives									
R Bell	460,128	-	41,723	3,433	505,284	89,355	-	-	**594,639**
M Blucher	750,000	-	412	(8,691)	741,721	50,000	-	12,491	**804,212**
D Foster [7]	631,613	-	29,180	(22,258)	638,535	65,440	-	61,955	**765,930**
A Harmer [8] [10]	319,635	-	412	-	320,047	-	-	-	**320,047**
C Herbert [9] [10]	137,570	-	14,949	100,856	253,375	4,895	-	2,133	**260,403**
B Inglis [9]	786,255	-	16,517	45,665	848,437	13,745	-	13,095	**875,277**
S McDonald [9]	686,255	-	25,867	(31,674)	680,448	13,745	-	17,157	**711,350**
M Milliner	642,202	-	10,926	(28,386)	624,742	101,147	-	10,695	**736,584**
J Smith	700,000	-	14,482	29,157	743,639	50,000	-	-	**793,639**
G Summerhayes	611,255	-	412	16,457	628,124	13,745	-	-	**641,869**
Retired during financial year									
R Belleville	322,772	-	412	(25,081)	298,103	52,571	1,370,454	19,484	**1,740,612**

The amounts that appear under the column below headed "Charge for share based allocations" are the amounts required under the Accounting Standards to be expensed by the Company in respect of the allocation of long-term incentives. These amounts are therefore not amounts actually received by executives during the year. Whether executives receive any value from the allocation of long-term incentives in the future will depend upon the relative future performance of the Group.

In the case of Mr Mulcahy, the amount set forth in the table includes an amount of $2,217,555, in respect of shares which, under the terms of his contract, did not vest. The balance of $3,949,467 is in respect of outstanding shares which may not vest.

The disclosure under the heading is made in accordance with the Accounting Standards but does not reflect the value that executives may or may not receive from the allocation of long-term incentives.

	Charge for share-based allocations	Performance related
	Shares [6]	
2009	$	%
Executive directors		
J Mulcahy	6,167,022	65.6
C Skilton	530,237	30.5
Other KMP and named executives		
R Bell	273,697	31.5
M Blucher	410,125	33.8
D Foster [7]	279,289	26.7
A Harmer [8] [10]	-	-
C Herbert [9] [10]	25,919	9.1
B Inglis [9]	410,121	31.9
S McDonald [9]	346,730	32.8
M Milliner	278,821	27.5
J Smith	190,402	19.3
G Summerhayes	66,744	9.4
Retired during financial year		
R Belleville	1,009,010	36.7

4.7.2 Remuneration table 2009 (continued)

Notes to the table

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, those costs are met by the employee through TEC sacrifice. An increase of $25,000 in Bernadette Inglis' relocation allowance was approved in the 2009 financial year.
3. Higher duties allowance ($500,000 per annum) for Mr Skilton's role as Acting CEO (refer to section 4.5.5). Secondment allowance for Mr Herbert ($300,000 per annum) for his role as Acting CFO (refer to section4. 5.5). Also includes annual leave accrued or utilised during the financial year.
4. Mr Belleville received a termination payment of $1,370,454 (gross), further to the terms of his heritage Promina employment contract (refer section 4.5.3.2). Mr Mulcahy received a termination payment equal to 12 months' TEC and a relocation allowance, as outlined in his 2007 contract (refer to section 4.5.3.3).
5. Long service leave accrued during the year.
6. For KMP, performance shares issued as long-term incentives to executives and executive directors are expensed to the Income Statement based on their fair value over the period from grant date to vesting date. At vesting date, the difference between the purchase price and fair value is also expensed to the Income Statement. The fair value was assessed using a Monte-Carlo model and reflects the fact that an executive's entitlement to the shares is dependent on Suncorp's relative TSR performance.
7. The TEC increase received during the year by David Foster, Group Executive Banking, related to the change in his role and increased responsibilities following the merger of Suncorp's Retail and Business Banking divisions in August 2008.
8. Mr Harmer is seconded from Ernst & Young on a consulting basis.
9. Indicates a change in role during the financial year.
10. Figures represent payments made since date of appointment.

4.7.3 Remuneration table 2008

Remuneration of other KMP and named executives for the year ended 30 June 2008

	Short-term benefits					Post-employment benefits	Termination	Long-term	Total excluding charge for share-based allocations
	Salary and fees	STI bonus [1]	Non-monetary benefits [2]	Other [3]	Total	Superannuation benefits	Severance pay [4]	Other [5]	
2008	$	$	$	$	$	$	$	$	$
Executive directors									
J Mulcahy	1,900,000	1,200,000	337	29,444	3,129,781	100,000	-	173,622	**3,403,403**
C Skilton	986,871	500,000	337	276,580	1,763,788	13,129	-	16,487	**1,793,404**
Other KMP and named executives									
R Bell	450,654	325,000	43,924	149,536	969,114	88,073	-	-	**1,057,187**
R Belleville	687,876	400,000	21,046	206,506	1,315,428	112,558	-	11,799	**1,439,785**
M Blucher	750,000	400,000	337	179,836	1,330,173	50,000	-	12,531	**1,392,704**
D Foster	596,330	325,000	52,642	199,970	1,173,942	53,670	-	-	**1,227,612**
D Fox	686,871	420,000	64,467	102,994	1,274,332	13,129	1,050,000	2,960	**2,340,421**
B Inglis	786,871	400,000	337	193,983	1,381,191	13,129	-	68,619	**1,462,939**
M Kay	199,722	448,374	-	290,745	938,841	8,262	1,164,609	-	**2,111,712**
S McDonald	686,871	350,000	25,792	194,214	1,256,877	13,129	-	17,825	**1,287,831**
M Milliner	642,202	350,000	22,276	177,622	1,192,100	57,798	-	11,097	**1,260,995**
J Smith	700,000	425,000	337	37,748	1,163,085	50,000	-		**1,213,085**
G Summerhayes [7]	62,578	-	337	4,682	67,597	1,343	-	-	**68,940**

The amounts that appear under the column below headed "Charge for share based allocations" are the amounts required under the Accounting Standards to be expensed by the Company in respect of the allocation of long term incentives. These amounts are therefore not amounts actually received by executives during the year. Whether executives receive any value from the allocation of long term incentives in the future will depend upon the relative future performance of the Group.

2008	Charge for share-based allocations Shares [6] $	Performance related %
Executive directors		
J Mulcahy	2,786,448	64.4
C Skilton	855,605	51.2
Other KMP and named executives		
R Bell	180,383	40.8
R Belleville	222,015	37.4
M Blucher	645,300	51.3
D Foster	252,171	39.0
D Fox	706,394	37.0
B Inglis	645,312	49.6
M Kay	90,213	24.5
S McDonald	402,610	44.5
M Milliner	228,840	38.9
J Smith	82,732	39.2
G Summerhayes [7]	-	-

4.7.3 Remuneration table 2008 (continued)

Notes to the table

1. STI for the financial year includes the amount that vested in the financial year – based on achieving performance criteria outlined in section 4.5.2.1.
2. 'Non-monetary benefits' includes the cost to the Group of providing certain fringe benefits. Where those costs represent fringe benefits for motor vehicle leases, those costs are met by the employee through TEC sacrifice.
3. Includes integration retention awards put in place in October 2006 and accrued in the year ended 30 June 2008 aimed at ensuring the retention of key executives during the critical period following the announcement of the Promina transaction together with annual leave accrued or utilised during the financial year. To qualify for the payment, the participant had to be employed by Suncorp on 30 June 2008. The accruals in respect of the year ended 30 June 2008 are included in the 2008 figures.
4. Mr Fox, who was appointed to the Group Executive team on 30 March 2007, retired effective 31 July 2008. As the contractual arrangements of his departure had been finalised prior to 30 June 2008, the termination payment was accrued in full in the 2008 financial year and paid in the year ended 30 June 2009.
5. Long service leave accrued during the year.
6. For KMP, performance shares issued as long-term incentives to executives and executive directors are expensed to the Income Statement based on their fair value over the period from offer date to vesting date. At vesting date, the difference between the purchase price and fair value is also expensed to the Income Statement. The fair value was assessed using a Monte-Carlo model and reflects the fact that an Executive's entitlement to the shares is dependent on Suncorp's relative TSR performance.
7. Mr Summerhayes was appointed on 26 May 2008, and has been considered a KMP from that date.

4.7.4 Remuneration table – Non-executive directors

Remuneration of non-executive directors for the years ended 30 June 2008 and 30 June 2009

		Short-term Benefits			Post-Employment Benefits		Total [3]
	Year	Salary and fees $	Shares [2] $	Non-monetary benefits $	Superannuation benefits $	Retirement benefits [1] $	$
Non-executive directors							
J Story (Chairman)	2009	450,000	100,000	412	49,500	-	599,912
	2008	450,000	100,000	337	49,500	(90,108)	509,729
W Bartlett	2009	249,999	-	412	22,500	-	272,911
	2008	265,000	-	337	23,850	-	289,187
Dr I Blackburne	2009	240,000	-	412	21,600	-	262,012
	2008	240,000	-	337	21,600	(32,892)	229,045
P Dwyer	2009	219,999	-	412	19,800	-	240,211
	2008	220,000	-	337	19,800	-	240,137
Dr C Hirst AO	2009	181,725	50,000	412	18,975	-	251,112
	2008	155,000	75,000	337	20,700	-	251,037
M Kriewaldt	2009	219,999	-	412	19,800	(24,548)	215,663
	2008	194,614	-	337	61,109	(46,908)	209,152
E Kulk	2009	139,800	-	412	100,000	-	240,212
	2008	139,800	-	337	100,000	-	240,137
G Ricketts	2009	219,999	-	412	19,800	-	240,211
	2008	220,000	-	337	19,800	-	240,137
Dr Z Switkowski	2009	191,963	-	412	69,636	-	262,011
	2008	175,833	-	337	81,225	-	257,395
L Tutt	2009	230,000	-	412	20,700	-	251,112
	2008	230,000	-	337	20,700	-	251,037

Notes to the table

1. The retirement benefits arrangements for NEDs are being phased out. Individual benefit entitlements are being reduced over the period directors remain in office.
2. For NEDs, the shares were acquired under the Non-Executive Directors' Share Plan and funded by pre-tax remuneration. No performance criteria are attached to these shares.
3. None of the remuneration paid to individual NEDs is performance-based; refer to section 4.6.2.

4.8 Equity instruments

4.8.1 Equity hedging policy

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 shares.

Dealing in that type of security is prohibited unless the transaction has been approved by either the Chairman (for directors) or the CEO (for executives) and the security is fully vested. All executives 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 shares remain unvested, the securities are held in the name of the plan trustee and therefore cannot be accessed or dealt with by the employee.

Once the securities have fully vested, the Chairman or CEO (as appropriate) is required to be notified when securities are withdrawn from the plan including details of how the Executive intends to deal in the securities once they are released. The CEO's approval is required for an Executive to enter into any form of hedging arrangement, including where shares are acquired directly on-market by an Executive.

4.8.2 Number and value of deferred ordinary shares granted, vested and lapsed under the EPSP

A summary of the number of deferred ordinary shares granted in this or previous financial years, vested and lapsed under the EPSP as long-term incentives to the CEO and executives is as follows:

	Deferred ordinary shares granted					Fair value yet to vest		Market value	
	Granted number #	Date granted [3]	Vested in year %	Forfeited in year %	Financial year in which grant may first vest	Minimum [1] $	Maximum [2] $	Market Value at Date of Grant [4] $	Market value as at 30 June 2009 [5] $
Executive directors									
J Mulcahy	100,000	1 October 2004	-	100	2 March 2009	-	-	-	-
	3,300	17 April 2007	-	100	2 March 2009	-	-	-	-
	120,000	1 October 2005	-	100	2 March 2009	-	-	-	-
	3,961	17 April 2007	-	100	2 March 2009	-	-	-	-
	120,000	1 October 2006	-	-	30 June 2010	-	1,489,200	2,632,800	804,000
	3,961	17 April 2007	-	-	30 June 2010	-	30,856	85,043	26,539
	180,000	1 October 2007	-	-	30 June 2011	-	2,628,000	3,663,000	1,206,000
	250,000	1 October 2008	-	-	30 June 2012	-	1,080,000	2,402,500	1,675,000
C Skilton	40,465	1 October 2005	100	-	30 June 2009	-	-	-	-
	1,335	17 April 2007	100	-	30 June 2009	-	-	-	-
	38,610	1 October 2006	-	-	30 June 2010	-	479,150	847,103	258,687
	1,274	17 April 2007	-	-	30 June 2010	-	9,924	27,353	8,536
	50,370	1 October 2007	-	-	30 June 2011	-	735,402	1,025,030	337,479
	98,881	1 October 2008	-	-	30 June 2012	-	427,166	950,246	662,503
Executives									
M Blucher	30,349	1 October 2005	100	-	30 June 2009	-	-	-	-
	1,001	17 April 2007	100	-	30 June 2009	-	-	-	-
	28,900	1 October 2006	-	-	30 June 2010	-	358,649	634,066	193,630
	953	17 April 2007	-	-	30 June 2010	-	7,424	20,461	6,385
	40,296	1 October 2007	-	-	30 June 2011	-	588,322	820,024	269,983
	79,104	1 October 2008	-	-	30 June 2012	-	341,729	760,189	529,997
B Inglis	30,349	1 October 2005	100	-	30 June 2009	-	-	-	-
	1,001	17 April 2007	100	-	30 June 2009	-	-	-	-
	28,900	1 October 2006	-	-	30 June 2010	-	358,649	634,066	193,630
	953	17 April 2007	-	-	30 June 2010	-	7,424	20,461	6,385
	40,296	1 October 2007	-	-	30 June 2011	-	588,322	820,024	269,983
	79,104	1 October 2008	-	-	30 June 2012	-	341,729	760,189	529,997
S McDonald	16,692	1 October 2005	100	-	30 June 2009	-	-	-	-
	551	17 April 2007	100	-	30 June 2009	-	-	-	-
	28,900	1 October 2006	-	-	30 June 2010	-	358,649	634,066	193,630
	953	17 April 2007	-	-	30 June 2010	-	7,424	20,461	6,385
	35,259	1 October 2007	-	-	30 June 2011	-	514,781	717,521	236,235
	69,216	1 October 2008	-	-	30 June 2012	-	299,013	665,166	463,747
D Foster	6,576	1 October 2005	100	-	30 June 2009	-	-	-	-
	217	17 April 2007	100	-	30 June 2009	-	-	-	-
	23,120	1 October 2006	-	-	30 June 2010	-	286,919	507,253	154,904
	763	17 April 2007	-	-	30 June 2010	-	5,945	16,382	5,112
	32,740	1 October 2007	-	-	30 June 2011	-	478,004	666,259	219,358
	64,272	1 October 2008	-	-	30 June 2012	-	277,655	617,654	430,622
M Milliner	5,216	1 October 2005	100	-	30 June 2009	-	-	-	-
	172	17 April 2007	100	-	30 June 2009	-	-	-	-
	20,808	1 October 2006	-	-	30 June 2010	-	258,227	456,528	139,414
	686	17 April 2007	-	-	30 June 2010	-	5,344	14,728	4,596
	35,259	1 October 2007	-	-	30 June 2011	-	514,781	717,521	236,235
	69,216	1 October 2008	-	-	30 June 2012	-	299,013	665,166	463,747
R Bell	23,813	1 April 2007	-	-	30 June 2010	-	271,706	495,310	159,547
	32,740	1 October 2007	-	-	30 June 2011	-	478,004	666,259	219,358
	64,272	1 October 2008	-	-	30 June 2012	-	277,655	617,654	430,622
R Belleville	29,309	1 April 2007	-	-	30 June 2010	-	334,416	609,627	196,370
	40,296	1 October 2007	-	-	30 June 2011	-	588,322	820,024	269,983
	79,104	1 October 2008	-	-	30 June 2012	-	341,729	760,189	529,997
D Fox	25,645	1 April 2007	-	100	14 November 2008	-	-	-	-
	35,259	1 October 2007	-	100	14 November 2008	-	-	-	-
J Smith	37,777	1 October 2007	-	-	30 June 2011	-	551,544	768,762	253,106
	74,160	1 October 2008	-	-	30 June 2012	-	320,371	712,678	496,872
G Summerhayes	61,800	1 October 2008	-	-	30 June 2012	-	266,976	593,898	414,060
C Herbert	5,564	1 October 2005	100	-	30 June 2009	-	-	-	-
	183	17 April 2007	100	-	30 June 2009	-	-	-	-
	6,196	1 October 2006	-	-	30 June 2010	-	67,819	135,940	41,513
	204	17 April 2007	-	-	30 June 2010	-	1,589	4,380	1,367
	11,081	1 October 2007	-	-	30 June 2011	-	161,783	225,498	74,243
	15,820	1 October 2008	-	-	30 June 2012	-	68,342	152,030	105,994
A Harmer	No shares granted.					-	-	-	-

4.8.2 Number and value of deferred ordinary shares granted, vested and lapsed under the EPSP (continued)

Notes to the table

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. Based on the most recent testing of Suncorp’s TSR performance relative to the relevant grant’s peer group (30 June 2009), none of the offered shares are expected to 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. The maximum value has reduced significantly since 2008, given the fall in Suncorp’s share price over the past 12 months.
3. The grants made on 17 April 2007 relate to additional shares awarded to executives (against each of their “unvested” EPSP offers) to compensate for the loss in the value of their offered shares at the time of the Promina merger.
4. 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.
5. Market value as at 30 June 2009 is calculated by the number of shares granted multiplied by the closing share price as traded on ASX on 30 June 2009.

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.

During the year, the Bank implemented a strategic realignment of the portfolio to position the business for the new funding and risk environment. The Bank separated lending portfolios into core and non-core lines and is focused on relationship-based lending and deposit gathering in the core business, while responsibly managing run-off of the non-core business.

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’s strategic delivery is focused on leveraging the unique diversified business mix to deliver consistent strong returns.

6 Operating and financial review

6.1 Overview of the Group

The 2009 financial year coincided with the most volatile period in Australian financial services history. While investment market volatility had been apparent since the emergence of sub-prime mortgage failures in the United States in 2007, the full impact of the global financial crisis emerged following the collapse of the US-based investment bank, Lehman Bros. in September 2008. What followed was an unprecedented dislocation of global credit markets – with access to short and long-term debt effectively frozen. This, in turn, caused an immediate contraction of credit and a dramatic slowing in global demand. While conditions have begun to stabilise, the events of the past 18 months have fundamentally changed the financial services landscape – forcing traditional business models to be dramatically overhauled.

Each of Suncorp's three lines of business has been materially affected by the global financial crisis with the general insurer also dealing with an unprecedented series of major weather and natural hazard events. This has resulted in a significant reduction in Group profits, with reported net profit after tax (NPAT) at $348 million for the year to June 2009, down 40% on the prior year. Irrespective of the effect of external factors on the result, the Board, management and all Suncorp people are conscious that this constitutes an extremely disappointing outcome for Suncorp shareholders.

However, the year has also seen the Group make significant progress in restructuring and reshaping each business to take account of the changed external environment. During the year, both Suncorp Bank and Suncorp Life completed comprehensive strategic reviews designed to achieve sustainable, low risk business models with a focus on the core franchise. The general insurer has continued to drive further cost efficiencies through integration and has de-risked its investment portfolios in response to continuing market volatility. At the Group level, significant enhancements have been made to risk frameworks, including the appointment of an Acting Chief Risk Officer, while the overall capital position now sits well ahead of internal targets.

Recently the Group announced the appointment of a new Chief Executive Officer. Patrick Snowball is a highly experienced financial services executive with a background in insurance that includes an extensive career at Aviva plc, the worlds' fifth largest insurance group and the largest insurance services provider in the United Kingdom. Mr Snowball will commence on 1 September 2009.

The high level profit summary includes:

- Profit before tax and Promina acquisition items reduced by 20.5% to $799 million.
- Cash earnings per share was 47.2 cents.
- The Board has resolved to pay a final dividend of 20 cents per share fully franked.

6.2 Financial position and capital structure

The Group undertook a number of significant funding and capital management initiatives during the year. These initiatives included:-

- equity raisings of just over $1 billion comprising:
    - an accelerated, non-renounceable institutional entitlement offer;
    - an institutional placement; and
    - a non-renouncable entitlement offer allowing shareholders to subscribe for 1 new share for every 5 existing ordinary shares at an issue price of $4.50;
- US$2.5 billion floating rate notes offering (guaranteed under the Australian Government's Guarantee Scheme for Large Deposits and Wholesale Funding) in June 2009. Floating rate notes have a coupon of 3-month $US Libor + 37.5 bps and are due to mature on 17th December 2010;
- repurchase of $405 million of subordinated notes, resulting in a profit of $129 million; and
- additional residential mortgages added into the existing Apollo Series 2008-1R Trust, the issued securities of which remain on the Bank's balance sheet as they meet the eligibility criteria of Repurchasable Securities with the RBA to provide additional liquidity if required.

At 30 June 2009 the consolidated Banking minimum high quality liquid asset ratio was 14.3% (2008:7.2%) and the minimum liquid asset ratio was 16.7% (2008:12.5%). The Bank ended the financial year to 30 June 2009 with average balance sheet duration, including subordinated notes and hybrids of around 1.3 of a year (2008:0.69 of a year).

6.2 Financial position and capital structure (continued)

These initiatives have enabled the Group to maintain a strong financial position with shareholders equity at $13.2 billion. The Group's credit ratings were impacted by the global financial volatility during the year to 30 June 2009. In January 2009, Standard and Poor's reduced the long-term counterparty credit rating for the Bank to 'A' from 'A+' with a stable outlook. In February 2009, Fitch Ratings affirmed the 'A+' rating for Suncorp-Metway Ltd and Suncorp Metway Insurance Limited, however, due to deteriorating economic conditions, Suncorp-Metway Ltd has been placed on 'negative outlook'. In March 2009, Moody's lowered the long-term deposit and debt ratings of the bank to 'A1' from 'Aa3' with a stable outlook.

The strong capital position of the Group is further demonstrated by the Bank's capital adequacy ratio of 12.77% and General Insurer's minimum capital requirement multiple of 1.6 times the regulatory minimum.

6.3 Impact of legislation and other external requirements

The Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding ("the Guarantee Scheme") formally commenced on 28 November 2008, although interim arrangements were in place from 12 October 2008. Under the Guarantee Scheme, Suncorp Bank can obtain guarantees for deposit balances totalling over $1 million per customer and for wholesale funding liabilities. However, for Suncorp Bank, this wholesale guarantee and deposit guarantee for balances over $1million incurs a fee of 1% of the amount guaranteed. The Australian Government guarantee of deposit balances totalling less than $1 million per customer does not incur a fee.

During the year ended 30 June 2009, the Company raised net wholesale funding totalling $11 billion that was guaranteed under the Guarantee Scheme. The Guarantee Scheme also assisted in increasing the Group's retail deposits during the year.

Suncorp Bank is also assessing the impact on its business of proposed regulatory changes being introduced by the Federal Government including regulation of margin lending and National Consumer Credit Protection legislation which has been 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 Federal Government is also proposing to make changes to the Insurance Contracts Act. The General Insurance Code of Practice is also under review. Government reviews are being conducted into Superannuation, Financial Planning and the Taxation System which could also impact the Group's operations.

6.4 Review of principal businesses

In **Banking**, profit before tax, impairment losses and one-off items for the 2009 financial year was $781 million, an increase of 16.9% over the prior year. As forecast, the tail winds that supported strong revenue growth in the first half have been replaced by the significant head winds associated with the lengthening of the Bank's balance sheet and increased funding costs.

Net interest income increased 8.4% over the prior year, reflecting strong net interest margins and higher average receivables balances in the first half of the year. In the second half, net interest income was negatively impacted by slower lending growth and increased wholesale funding costs as the duration of the funding base was substantially lengthened.

During the year, the Bank implemented a strategic realignment of the portfolio to position the business for the new funding and risk environment. 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 1.1% to $55.4 billion, reflecting a period of conservative lending in core portfolios in the slower economic environment and the commencement of the run-down in non-core portfolios.

Housing loan receivables (including securitised assets) grew 3.9% to $28.3 billion, while consumer lending reduced by 29.3% to $610 million as consumers reduced personal loan and margin lending balances in line with tighter economic conditions and volatile equity markets. Business lending receivables reduced by 5.6% to $25.5 billion, with the non-core segments of Corporate and Lease Finance reducing considerably.

The Bank continued its strong focus on deposit gathering and, despite extreme volatility in financial markets and significant outflows in the first quarter, grew core retail deposits by 13.2% to $21.4 billion. At 30 June 2009, the ratio of deposits to core lending was 64.1%.

6.4 Review of principal businesses (continued)

Suncorp raised $11 billion of term debt during the 2009 financial year and lengthened the weighted average term of liabilities from 0.69 years at 30 June 2008 to 1.32 years. The Bank significantly reduced its reliance on short-term wholesale funding and increased liquid assets, with the liquidity ratio increasing from 12.5% at 30 June 2008 to 16.7% at 30 June 2009. The proportion of lending funded through short-term wholesale sources net of liquid assets has reduced from 27% to 8% over the year.

As foreshadowed in Suncorp's market update in February 2009, margins contracted over the second half of the 2009 financial year, reflecting increased wholesale funding costs resulting from further lengthening of the Bank's wholesale funding duration. Net interest margin for the 2009 financial year was 1.68%, down 11 basis points on the prior year.

The Bank maintained a strong focus on efficiency and expense management during the year, with operating expenses reducing slightly, despite incurring a one-off cost of $25 million in the first half through the consolidation of the Retail and Business Banking divisions into a single operation.

Bad debt expense for the 2009 financial year rose to $710 million, equating to 128 basis points of gross loans, advances and other receivables.

The difficult economic conditions adversely impacted bad debt expenses for the year. The Group's specific provision increase included a $93 million provision for Babcock & Brown International as well as provisions for several large corporates, including Raptis Group Ltd, Sunleisure Pty Ltd and five large private companies that in aggregate represented 45% of the individually assessed impairment charges for the year.

The Group increased its collective provision by $202 million for the 2009 financial year. This included an economic overlay of $75 million, taken in the first half of the year to reflect ongoing economic deterioration. The economic overlay was maintained at 30 June 2009.

As a result of the additional provisioning, the ratio of total impairment provisions (excluding the equity reserve for credit losses) to total loans has increased to 137 basis points, from 28 basis points at 30 June 2008. At 30 June 2009 impaired assets were $1,474 million.

In **General Insurance**, all brands have experienced solid premium growth as markets harden in both short and long-tail products.

The insurance trading result (ITR) was $462 million, or 7.7% of net earned premium, reflecting the impact of natural hazards occurring during the year. The major natural hazard events together cost $345 million net of reinsurance, well ahead of Suncorp's normal long run expectation for natural hazard events of $240 million per year. Additionally, attritional natural hazards were $120 million above normal long run expectations and additional reinsurance coverage was purchased costing around $30 million.

Gross written premium increased by 6% on the prior year with strong premium growth in the home (9.2%), personal motor (5.3%), CTP (9.6%) and commercial (5.2%) portfolios. Premium increases introduced following reductions in investment returns and severe weather activity have not resulted in any significant increase in customer attrition, although some customers continue to respond to the slowing economy by raising their excesses.

In long-tail classes, central estimate releases were strong due to favourable experience and signs that superimposed inflation not seen at expected level. During the year, the central estimate releases from the outstanding claims provision were $382 million but these were partially offset by current accident period and risk margins strains. Consistent with widespread forecasts for a slowing Australian economy in the coming years, in the first half Suncorp reduced its assumption for wage inflation to 4% from 4.5%, resulting in a benefit of around $86 million. This was the only cornerstone assumption change for the year and this and other assumptions are still considered to be conservative.

Investment returns on technical reserves have continued to be adversely affected by the mark to market impact of widening credit spreads. The Group has over $8 billion in its technical reserves portfolio, where underlying investments are matched to the expected payouts in the outstanding claims provision. These are quality investments, largely semi-government and highly-rated corporate bonds that have no significant default risk; however, the economic mismatch from credit spread movements and other yield curve and duration movements reduced profitability by $125 million.

The general insurance shareholders' funds, which eliminated exposure to equity investments during the first quarter of 2008/09, generated a return of $130 million.

6.4 Review of principal businesses (continued)

The **Life** business unit reported profit after tax of $115 million, up 3.6% for the year to 30 June 2009. Underlying profit, which excludes annuities market adjustments, life risk policy liability discount rate changes and net investment income on shareholder assets, decreased 16.4% to $122 million. Discount rates increased during the second half, following a dramatic decrease in the half year to 31 December, significantly reversing first half year gains.

During the year to 30 June 2009, Suncorp Wealth Management changed its name to Suncorp Life. The past twelve months have been a period of operational stabilisation. The business model has been simplified in order to respond to the environment and rebase the business. Suncorp Life is focused on achieving its aspiration of becoming a leading life insurance specialist, with 'first tier' scale in Australia and New Zealand, and is concentrating on three key areas of distribution, retention and cost management. This has resulted in solid and sustained profit growth for life risk.

Life risk underlying profit is $87 million, up 13%, reflecting in-force premium growth, positive experience and expense management. Life risk in-force premium rose 7.3% to $733 million. Individual risk in-force premium grew at 8.2% and Group risk in-force premium grew at 4.1%. Individual life risk new business grew 10.6% to $73 million. Group Life new business fell due to a one-off premium rate increase for a major client in the prior comparative period.

In funds management, which includes the Superannuation & Investments and Asset Management divisions, profit after tax for the full year was $35 million, a decrease of 49.3%. Funds under Management remained steady at $23.4 billion.

Profits reduced due to a change in the mix in Funds under Management from equities to fixed interest and Funds under Administration dropping 17.9% on the prior year, in line with market.

In June, Life released its traditional Embedded Value (EV) which was independently assessed as $2.175 billion as at 31 December 2008. Life intends to provide updated EV as part of ongoing market disclosures.

Tight control of costs saw Life's operating expenses reduce by 8.6% to $338 million through both reductions in discretionary expenditure and key investments in sustainable cost reduction such as the introduction of electronic underwriting and a new superannuation platform.

6.5 Significant changes in the state of affairs

In addition to the capital management and funding initiatives referred to in 6.2 above, the Group announced that the Bank had implemented a strategic realignment of its operations to position the business for the new funding and risk environment. The Bank has separated its lending portfolios into core and non-core lines and is focused on relationship based lending and deposit gathering in the core business, while responsibly managing run-off of the non-core business.

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 environmental regulation when enforcing securities over land for the recovery of loans. As well, the Group will be required to submit greenhouse gas emissions 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 2009 interim ordinary dividend of $203 million (20 cents per share) was paid on 1 April 2009. A fully franked 2009 final dividend of $251 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 report.

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 to run-down the non-core banking portfolio, whilst focusing on the growth of its core banking, general insurance and life insurance operations.

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

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:

	2009	2009
	Fully Paid Ordinary Shares	Convertible Preference Shares
J D Story	134,880	-
W J Bartlett	19,968	-
Dr I D Blackburne	36,640	-
P J Dwyer	18,000	-
Dr C Hirst AO	27,678	100
M D E Kriewaldt	45,043	-
E J Kulk	20,173	-
G T Ricketts	21,764	-
C Skilton (1)	429,940	-
Dr Z E Switkowski	61,599	-
L E Tutt	60,969	-

Notes

(1) Includes 189,135 shares held by the trustee of the Executive Performance Share Plan. Beneficial entitlement to some of those 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 2009, 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, has 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 in accordance with written advice provided by a resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in 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:

	Consolidated	
	2009 $000	2008 $000
Services other than statutory audit		
Audit-related fees (regulatory)		
APRA reporting	504	586
Risk management	122	37
Australian Financial Services Licences	164	164
Other regulatory compliance services	1,353	795
	2,143	1,582
Audit-related fees (non-regulatory)		
Other assurance services	807	829
Due diligence	1,220	94
	2,027	923
Tax fees		
Tax compliance	89	190
	4,259	2,695

13 Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 36 and forms part of the directors' report for the financial year ended 30 June 2009.

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.

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

John D Story
Chairman

Christopher Skilton
Executive director

Brisbane
25 August 2009

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 2009 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Dr Andries B Terblanché
Partner

Brisbane
25 August 2009

Suncorp-Metway Ltd and subsidiaries

ABN 66 010 831 722

Consolidated financial report

30 June 2009

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		Consolidated		Company	
		2009	2008	2009	2008
	Note	$m	$m	$m	$m
Assets					
Cash and cash equivalents	12	2,356	1,003	1,367	216
Receivables due from other banks	12	118	263	118	263
Trading securities	13	6,694	5,685	6,694	5,685
Derivatives	42	552	532	421	466
Investment securities	14	20,330	19,149	14,560	11,082
Loans, advances and other receivables	15	56,753	57,343	52,962	53,487
Reinsurance and other recoveries	17	1,622	1,382	-	-
Deferred insurance assets	18	744	688	-	-
Assets classified as held for sale		-	151	-	-
Investments in associates and joint ventures	19	201	264	-	-
Due from subsidiaries		-	-	2,866	6,296
Property, plant and equipment	20	407	350	39	32
Deferred tax assets	10	260	-	329	-
Investment property	21	160	171	-	-
Other assets	22	430	643	275	393
Goodwill and intangible assets	23	6,836	7,098	-	-
Total assets		**97,463**	**94,722**	**79,631**	**77,920**
Liabilities					
Deposits and short-term borrowings	24	37,866	43,147	37,847	43,708
Derivatives	42	1,556	921	1,467	697
Payables due to other banks	12	29	45	29	45
Bank acceptances		3	865	3	865
Payables and other liabilities	25	2,342	1,956	1,255	934
Current tax liabilities	10	154	9	154	-
Employee benefit obligations	26	251	250	-	-
Due to subsidiaries		-	-	7,195	10,473
Unearned premium liabilities	27	3,528	3,263	-	-
Outstanding claims liabilities	28	7,506	7,140	-	-
Gross policy liabilities	29	5,547	6,793	-	-
Unvested policyowner benefits	29	397	314	-	-
Deferred tax liabilities	10	-	182	-	41
Managed funds units on issue	30	506	813	-	-
Securitisation liabilities	31	5,711	6,409	-	-
Debt issues	32	15,661	6,748	16,010	6,748
Total liabilities excluding loan capital		**81,057**	**78,855**	**63,960**	**63,511**
Loan capital					
Subordinated notes	33	2,312	2,638	1,583	1,699
Preference shares	34	865	863	865	863
Total loan capital		3,177	3,501	2,448	2,562
Total liabilities		84,234	82,356	66,408	66,073
Net assets		**13,229**	**12,366**	**13,223**	**11,847**
Equity					
Share capital		12,425	10,799	12,529	10,882
Reserves		(123)	209	(58)	291
Retained profits		921	1,352	752	674
Total equity attributable to equity holders of the Company	35	**13,223**	**12,360**	**13,223**	11,847
Minority interests	35	6	6	-	-
Total equity	35	**13,229**	**12,366**	**13,223**	**11,847**

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

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

	Note	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Revenue					
Banking interest revenue	6	4,676	4,696	4,736	4,492
Banking interest expense	6	(3,506)	(3,666)	(3,038)	(3,075)
		1,170	1,030	1,698	1,417
Banking fee and commission revenue	6, 38(a)	266	239	254	227
Banking fee and commission expense	6, 38(a)	(98)	(90)	(99)	(95)
		168	149	155	132
General insurance premium revenue	6, 39(a)	6,548	6,316	-	-
Life insurance premium revenue	6, 40(a)	719	698	-	-
Reinsurance and other recoveries revenue	6	1,187	1,162	-	-
General insurance investment revenue					
- insurance funds	6	668	474	-	-
- shareholder funds	6	158	(170)	-	-
Life insurance investment (loss) revenue	6	(698)	(843)	-	-
Other revenue	6	665	595	1,299	718
		10,585	9,411	3,152	2,267
Expenses					
Operating expenses	7	(3,386)	(3,346)	(1,639)	(1,263)
General insurance claims expense	39(a)	(5,638)	(5,100)	-	-
Life insurance claims expense	40(a)	(437)	(411)	-	-
Outwards reinsurance premium expense	39(a), 40(a)	(749)	(619)	-	-
Decrease in net policy liabilities	40(a)	867	856	-	-
(Increase) in unvested policy owner benefits	40(a)	(83)	(74)	-	-
Outside beneficial interests in managed funds		74	173	-	-
Non-banking interest expense		(113)	(164)	(47)	(60)
		(9,465)	(8,685)	(1,686)	(1,323)
Share of (losses) profits of associates and joint ventures	19	(3)	11	-	-
Profit before impairment losses on loans and advances and tax		1,117	737	1,466	944
Impairment losses on loans and advances	9	(710)	(71)	(688)	(63)
Profit before tax		407	666	778	881
Income tax (expense) benefit	10	(54)	(78)	65	(109)
Profit for the year		353	588	843	772
Attributable to:					
Equity holders of the Company	35	348	583	843	772
Minority interests	35	5	5	-	-
Profit for the year		353	588	843	772

Earnings per share for profit attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share	11	31.62	60.23
Diluted earnings per share	11	31.11	60.23

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

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

Statements of recognised income and expense

for the year ended 30 June 2009

	Consolidated		Company	
	2009	2008	2009	2008
	$m	$m	$m	$m
Items of income and expense (net of tax)				
Available-for-sale assets				
- Change in fair value recognised in equity	11	3	11	5
- Change in fair value transferred from equity to profit and loss	(14)	3	(13)	3
Cashflow hedges				
- Amount recognised in equity	(343)	64	(352)	64
- Amount removed from equity and recognised in the income statement	(31)	(8)	(31)	(7)
Effect of change in accounting policy				
- Actuarial (losses) on defined benefit plans	(18)	(27)	-	-
Net (expense) income recognised directly in equity	(395)	35	(385)	65
Profit for the year	353	588	843	772
Total recognised income and expense for the year	(42)	623	458	837
Total recognised income and expense for the year attributable to:				
Equity holders of the Company	(47)	618	458	837
Minority interests	5	5	-	-
Total recognised income and expense for the year	**(42)**	**623**	**458**	**837**

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

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

	Note	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Cash flows from operating activities					
Interest received		5,449	5,412	4,724	4,450
Premiums received		7,864	7,678	-	-
Reinsurance and other recoveries received		1,052	1,050	-	-
Dividends received		316	485	957	518
Other operating revenue received		935	1,387	655	522
Interest paid		(3,640)	(3,786)	(3,106)	(3,135)
Claims paid		(6,237)	(6,160)	-	-
Outwards reinsurance premiums paid		(802)	(668)	-	-
Operating expenses paid		(4,125)	(4,130)	(2,217)	(1,543)
Income tax paid - operating activities		(65)	(149)	(24)	(149)
		747	**1,119**	**989**	**663**
Net (increase) in operating assets					
Banking securities		(1,019)	(1,319)	(1,068)	(1,394)
Loans, advances and other receivables		789	(9,941)	514	(10,057)
Net (decrease) increase in operating liabilities					
Deposits and short-term borrowings		(5,260)	12,322	(5,688)	13,005
Net cash from operating activities	47	**(4,743)**	**2,181**	**(5,253)**	**2,217**
Cash flows from investing activities					
Proceeds from disposal of plant and equipment and intangible software		5	8	-	-
Proceeds from sale of investment property		3	-	-	-
Proceeds from sale of investment securities		31,292	32,358	12	-
Proceeds from assets classified as held for sale		94	-	-	-
Proceeds from sale of associates and joint ventures		104	-	-	-
Proceeds from sale of investment in subsidiary, net of cash disposed (refer note 5)		2	10	-	-
Payments for plant and equipment and intangible software		(149)	(174)	(9)	-
Payments for purchase of investment securities		(33,400)	(32,751)	(2,678)	(1,267)
Payment for investment in subsidiary		-	-	(813)	(100)
Payments for investment property capitalised expenditure		(4)	(3)	-	-
Payments for purchase of investments in associates and joint ventures		(14)	(17)	-	-
Payments for purchase of development properties		(31)	(52)	-	(12)
Income taxes paid – investing activities		(74)	(358)	-	-
Net cash from investing activities		**(2,172)**	**(979)**	**(3,488)**	**(1,379)**
Cash flows from financing activities					
Proceeds from issue of shares		1,379	205	1,379	205
Proceeds from issue of convertible preference shares		-	735	-	735
Proceeds from issue of subordinated notes		-	743	-	743
Net increase (decrease) in debt issues and securitisation liabilities		7,267	(1,810)	8,867	(1,544)
Payment of transaction costs		(26)	(17)	(26)	(16)
Payments for treasury shares		(24)	(25)		-
Payment on maturity of subordinated notes		-	(160)	-	(160)
Dividends paid on ordinary shares		(453)	(758)	(457)	(762)
Net cash from financing activities		**8,143**	**(1,087)**	**9,763**	**(799)**
Net increase in cash and cash equivalents		1,228	115	1,022	39
Cash and cash equivalents at beginning of financial year		1,221	1,110	434	395
Cash balances acquired (disposed) during the year		(3)	(4)	-	-
Effect of exchange rate fluctuations on cash held		(1)	-	-	-
Cash and cash equivalents at end of financial year	12	**2,445**	**1,221**	**1,456**	**434**

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

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

1. Reporting entity

Suncorp-Metway Ltd ("the Company") is a company domiciled in Australia. The address of the Company's registered office is Level 18, 36 Wickham Terrace, Brisbane, QLD, 4000. The consolidated financial statements of the Company as at and for the financial year ended 30 June 2009 comprises 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 2009.

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, short-term offshore borrowings and life investment contract liabilities.

2(c) Liquidity format

The balance sheet is 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.

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)

2. Basis of preparation (continued)

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

- 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)
- Contingencies (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 2008. There has been no effect on the financial performance or position of the Group from the adoption of these standards and Interpretations.

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

- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. It will require the disclosure of segment information based on the internal management structure. AASB 8 becomes mandatory for the Group's 30 June 2010 financial statements and will primarily impact disclosures. The Group has not yet determined the potential effect of the new standard on the Group's disclosures.
- Revised AASB 101 *Presentation of Financial Statements* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Group's 30 June 2010 financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Group has not yet determined which presentation it will adopt.
- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. This standard will impact any business combination undertaken from 1 July 2009.
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

3. Significant accounting policies (continued)

- AASB 2008-1 *Amendments to Australian Accounting Standards – Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The adoption of this amendment is not expected to have a material impact on the Group.
- AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation* changes the classification of some debt instruments to equity instruments. It becomes mandatory for the Group's 30 June 2010 financial statements, with retrospective application required. The adoption of this amendment is not expected to have a material impact on the Group.
- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement of dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the Group's 30 June 2010 financial statements and will effect the accounting treatment of dividends received from subsidiaries and any restructures occurring after 1 July 2009.
- AASB 2008-8 *Amendments to Australian Accounting Standards – Eligible Hedged Items* clarifies the effect of using options as hedging instruments and the circumstances in which inflation risk can be hedged. The amendments become mandatory for the Group's 30 June 2010 financial statements with retrospective application. The Group has not yet determined the potential effect of the amendments. The adoption of this amendment is not expected to have an impact on the Group.

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 subsidiary companies are initially measured at cost. They are subsequently increased by any capital contributions such as 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 and Asteron Life Limited ("the Life Companies"), assets, liabilities, revenues and expenses are recognised in the consolidated financial report irrespective of whether they relate to 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 balance sheet. 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 unit holder liability attributable to the Group is eliminated but amounts due to external unit holders remain as liabilities in the balance sheet. Managed funds units on issue represents that liability to external unit holders in funds which have been consolidated by the Group.

3. Significant accounting policies (continued)

3(a) Principles of consolidation (continued)

(iii) Minority interests

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

(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 per cent to 50 per cent 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 equity accounting principles. 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.

(viii) Securitisation

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

3. Significant accounting policies (continued)

3(a) Principles of consolidation (continued)

(viii) Securitisation (continued)

Group

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

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

Suncorp-Metway Ltd ("the Company")

The Company receives the residual income of the Trusts and under *AASB 139 Financial Instruments: Recognition and Measurement*, interest rate risk from the Trusts is transferred back to the Company by way of interest rate swaps. Accordingly, the original sale of the mortgages from the Company to the Trusts fails the de-recognition criteria set out in AASB 139. The Company continues to reflect the securitised loans in their entirety and also recognises a financial liability to the Trusts. The Trusts then recognise a financial asset due from the Company and a financial liability to the holders of the 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 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 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.

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

3. Significant accounting policies (continued)

3(c) Foreign currency (continued)

(i) Foreign currency transactions (continued)

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 fair value 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 'Hedging' policies (refer notes 3(d) and (e) respectively).

(ii) Financial reports of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates ruling at the reporting date. 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 exchange 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 or an embedded 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 'Hedging' policy (refer note 3(e)).

<u>Embedded derivatives</u>

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) Hedging

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.

3. Significant accounting policies (continued)

3(e) Hedging (continued)

(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.

(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 balance sheet.

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

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 fair value through profit or loss, being the gross value of the outstanding balance. Bank overdrafts are shown within financial liabilities in the balance sheet unless there is a right of offset.

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 re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

3. Significant accounting policies (continued)

3(i) Financial assets

A financial asset is recognised on the balance sheet 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.

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

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

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 investments no longer qualify as a held-to-maturity investment, they are accounted for as an available-for-sale investment from that point forward.

(iv) Available-for-sale

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

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

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.

3. Significant accounting policies (continued)

3(i) Financial assets (continued)

Banking activities (continued)

(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 securities, or bank 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 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-related receivables .

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

(ii) 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.
- Receivables comprise premium debtors, reinsurance and other recoveries, investment-related receivables, distributions receivable and loans. Receivables are recognised at fair value which is approximated by taking the initially recognised amount and reducing it for credit risk as appropriate. Given the short-term nature of most receivables, the recoverable amount approximates fair value.

3. Significant accounting policies (continued)

3(i) Financial assets (continued)

Life Insurance activities (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 classified as available-for-sale or 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 the Group is the lessor, are recognised in the balance sheet as Loans, advances and other receivables. They are recorded on the commencement of the lease at the net investment in the lease, being the present value of the minimum lease payments receivable and any unguaranteed residual value, plus any initial direct costs.

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

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. Significant accounting policies (continued)

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 items of property, plant and equipment.

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

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

Category	Rate
Buildings (excluding integral plant)	2.5 %
Leasehold improvements	10% 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.

3. Significant accounting policies (continued)

3(m) Intangible assets (continued)

(i) Initial recognition and measurement (continued)

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.

<u>Business combinations prior to 1 July 2004</u>

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

<u>Business combinations since 1 July 2004</u>

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

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.

3. Significant accounting policies (continued)

3(n) Deferred insurance assets (continued)

General Insurance activities (continued)

(ii) Deferred reinsurance premiums

Deferred reinsurance premiums are recognised as part of deferred insurance assets in the balance sheet. 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.

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 balance sheet. 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

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

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

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued. In that case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Where there is evidence that an available-for-sale financial asset that has been recognised directly in equity is impaired, the decline in fair value is transferred to the income statement from equity.

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

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

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

(i) Calculation of recoverable amount

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

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised as interest income.

3. Significant accounting policies (continued)

3(o) Impairment (continued)

(ii) Reversal of impairment

An impairment loss for an asset other than goodwill is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. The impairment loss is reversed, in the income statement, only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded. An impairment loss recognised for goodwill is not reversed.

Banking activities

(i) Impairment of loans and receivables

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

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 its short-term offshore borrowing program 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 'Hedging' policies).

3. Significant accounting policies (continued)

3(p) Financial liabilities (continued)

(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(q) Employee entitlements

(i) Short-term employee benefits

Wages, salaries and annual leave

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

Sick leave

Sick leave entitlements are non-vesting and are paid only upon valid claims for sick leave by employees. No liability for sick leave 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 companies and the Group's legal or constructive obligation is limited to these contributions. The defined benefit plans provide defined lump sum benefits based on years of service and final average salary.

The asset and liability recognised in the balance sheet in respect of defined benefit plans is the lower of:

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

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

3. Significant accounting policies (continued)

3(q) Employee entitlements (continued)

In the consolidated financial statements for periods beginning before 1 July 2008, the Group recognised actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in the income statement. This change in accounting policy has been made to enable the consolidated financial statements of the Group to be more comparable to industry peers and better represent the Group's underlying financial performance.

The change in accounting policy was applied retrospectively in accordance with the accounting standards, and comparatives have been restated. The change in accounting policy had the following impact on these consolidated financial statements:

	Consolidated	
	Jun-09 $m	Jun-08 $m
Consolidated income statement		
(Decrease) in operating expenses	(24)	(38)
Increase in profit for the period	18	27
Increase in basic earnings per share (cents)	1.64	2.79
Increase in diluted earnings per share (cents)	1.46	2.79
Consolidated statement of recognised income and expense		
Actuarial (losses) on defined benefit plans	(18)	(27)
Increase in net (expense) income recognised directly in equity	(18)	(27)
Increase in profit for the year	18	27

(iii) Other long-term employee benefits

Long service leave

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

(iv) Termination benefits

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

(v) Share-based payments

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

Immediately vesting compensation

Shares granted under the Exempt Employee Share Plan vest immediately at grant date. Although the value paid to each employee is determined by a cash amount, the payment is made in shares (with no cash alternative) and is therefore treated as 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 value of these long-term incentives is recognised as an expense in the income statement on a straight line basis over the vesting period.

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

3. Significant accounting policies (continued)

3(q) Employee entitlements (continued)

(v) Share-based payments (continued)

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

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

When the Company grants deferred shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

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

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

3(r) Outstanding claims liabilities

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

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

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 balance sheet 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. For Suncorp Life & Superannuation Limited this is based on the Commonwealth Government bond rate, having regard to the nature, structure and term of the contract liabilities. For Asteron Life Limited this is based on the interbank swap rate with adjustments for credit risk and liquidity premium.

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

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

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

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

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

Bonus distributions to participating policyowners are 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).

3. Significant accounting policies (continued)

3(s) Policy liabilities (continued)

(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*. 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 'Hedging' 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 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 balance sheet but are disclosed in the financial report, unless the possibility of settlement is remote, in which case no disclosure is made. If settlement becomes probable and the amount can be reliably estimated, a provision is recognised.

Contingent assets are not recognised in the balance sheet but are disclosed in the financial reports when inflows are probable. If inflows become virtually certain, an asset is recognised.

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

3. Significant accounting policies (continued)

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

Banking activities

(i) Interest revenue and expense

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

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

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

(ii) Non-interest revenue

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

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

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

Fees from profit-share loans are recognised when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the 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 balance sheet as an unearned premium liability. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods.

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

3. Significant accounting policies (continued)

3(x) Revenue (continued)

(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 balance sheet. Premiums due after but received before reporting date are recognised as premiums in advance within Payables and other liabilities in the balance sheet.

(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 ("IBNR") and claims incurred but not enough reported ("IBNER") 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.

(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 or expenses 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 and other 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 presented within Payables and other liabilities on the balance sheet. 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. Significant accounting policies (continued)

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 Margin on Services ("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. Significant accounting policies (continued)

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 balance sheet 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 balance sheet. 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 re-measurement of available-for-sale assets and cash flow hedges which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

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.

3. Significant accounting policies (continued)

3(ad) Income tax (continued)

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 equity holders 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.

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

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

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 balance sheet.

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

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 ordinary equity holders of the Company adjusted for any costs of servicing equity other than ordinary shares (the numerator), by the weighted average number of ordinary shares outstanding during the period, adjusted for bonus elements in ordinary shares issued during the year (the denominator).

(ii) Diluted earnings per share

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

- In the numerator, the after-tax effect of dividends, interest and other 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. Significant accounting policies (continued)

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

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

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

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

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

4(a) Business segments

The Group comprises the following business segments:

Segment	Activities
Banking	Commercial banking, agribusiness, property and equipment finance, home, personal and small business loans, savings and transaction accounts, and Treasury. (Includes core and non-core banking activities).
General Insurance - Personal	Home and motor insurance, travel insurance, loan protection, rental bond, personal effects cover and compulsory third party insurance.
General Insurance - Commercial	Commercial motor, marine and aviation insurance, public liability and professional indemnity insurance and workers' compensation insurance.
Life	Life insurance,superannuation administration services, funds management, financial planning and funds administration.
Vero New Zealand	Commercial motor and marine insurance, travel insurance, public liability and professional indemnity.
Other	Property management services and integration costs.

2009	Banking $m	General Insurance Personal $m	General Insurance Commercial $m	Life $m	Vero New Zealand $m	Other $m	Eliminations / unallocated $m	Consolidated $m
Revenue from outside the Group	5,059	6,095	2,062	426	665	17	(135)	14,189
Inter-segment revenue	19	-	-	4	1	-	(24)	-
Total segment revenue	5,078	6,095	2,062	430	666	17	(159)	14,189
Segment result	117	388	134	73	(9)	(148)	(35)	520
Non-banking interest expense								(113)
Profit before tax								407
Income tax expense								(54)
Profit for the year								353
Segment assets	68,774	13,322	6,518	9,220	951	84	(1,406)	97,463
Total assets								97,463
Segment liabilities	65,870	8,096	4,070	6,944	606	7	(1,359)	84,234
Total liabilities								84,234
Investments in associates and joint ventures	-	155	44	2	-	-	-	201
Acquisitions of property, plant and equipment and intangible assets	117	38	36	14	11	4	-	220
Share of profits of associates and joint ventures included in segment result	-	(3)	-	-	-	-	-	(3)
Depreciation and amortisation expense	45	140	99	60	43	4	-	391
Impairment losses	712	13	7	3	6	-	-	741
Impairment losses reversed	(2)	(9)	(4)	-	-	-	-	(15)

4. Segment reporting (continued)

4(a) Business segments (continued)

2008	Banking	General Insurance Personal	General Insurance Commercial	Life	Vero New Zealand	Other	Eliminations / unallocated	Consolidated
	$m	$m	$m	$m	$m	$m	$m	$m
Revenue from outside the Group	4,987	5,300	1,856	276	714	34	-	13,167
Inter-segment revenue	24	-	-	-	-	-	(24)	-
Total segment revenue	5,011	5,300	1,856	276	714	34	(24)	13,167
Segment result	627	81	145	3	27	(122)	69	830
Non-banking interest expense								(164)
Profit before tax								666
Income tax expense								(78)
Profit for the year								588
Segment assets	64,213	13,217	6,538	10,272	1,416	82	(1,016)	94,722
Total assets								94,722
Segment liabilities	61,699	8,365	4,057	8,169	1,008	9	(951)	82,356
Total liabilities								82,356
Investments in associates and joint ventures	-	263	-	1	-	-	-	264
Acquisitions of property, plant and equipment and intangible assets	43	54	56	17	4	6	-	180
Share of profits of associates and joint ventures included in segment result	-	11	-	-	-	-	-	11
Depreciation and amortisation expense	35	193	130	54	59	4	-	475
Impairment losses	75	13	-	-	-	-	-	88
Impairment losses reversed	(4)	-	-	-	-	-	-	(4)

4(b) Geographical segments

Whilst some business activities take place in New Zealand, the Group operates predominantly in one geographical segment being Australia.

5. Changes in the composition of the Group

5(a) Subsidiaries

Acquisitions

There were no material acquisitions of subsidiaries during the current or prior financial year.

Disposals

On 31 May 2009, the Group sold its investments in Secure Sentinel Pty Ltd and Secure Sentinel NZ Ltd. 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. Changes in the composition of the Group (continued)

5(a) Subsidiaries (continued)

Disposals (continued)

On 31 August 2007 Suncorp Metway Insurance Ltd sold a 30% interest in RACT Insurance Pty Ltd. Details of the disposal are as follows:

	$m
Carrying value of assets and liabilities disposed	
Cash	4
Reinsurance and other receivables	16
Investment securities	30
Other assets	3
Payables and other liabilities	(4)
Outstanding claims liabilities	(12)
Unearned premiums liabilities	(25)
Total carrying value of assets and liabilities deconsolidated	12
Reconciliation of cash movement	
Cash received	14
Less cash deconsolidated	(4)
Net cash inflow	10

5(b) Associates and joint venture entities

Acquisitions

The Group did not acquire any interests in joint ventures or associates in the current financial year.

Following the disposal of a 30% interest, from 1 September 2007 the Group holds a 70% ownership interest in RACT Insurance Pty Ltd, but as any strategic financial or operating decisions relating to its activities are made jointly between the Group and the acquiring entity, the Group's interest in RACT Insurance Pty Ltd is treated as an interest in a jointly controlled entity.

The Group acquired a 50% share in MMc Limited, a specialist fund administration business on 2 July 2007 and a 50% interest in Standard Pacific (Qld) Pty Ltd which was incorporated on 19 October 2007, both of which are accounted for as associates.

Disposals

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.

The Group did not dispose of any interests in joint ventures or associates in the prior financial year.

6. Income

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Interest:				
subsidiaries	-	-	37	36
other	5,422	5,456	4,699	4,456
Dividends:				
subsidiaries	-	-	957	518
other	316	485	-	-
Rental income	22	34	-	-
General insurance revenue:				
direct premium	6,514	6,290	-	-
inwards reinsurance premium	34	26	-	-
reinsurance and other recoveries	1,028	1,016	-	-
reinsurance commission income	54	41	-	-
Life insurance revenue:				
direct premium	719	698	-	-
reinsurance recoveries revenue	159	146	-	-
Changes in fair value of General insurance financial assets	247	(397)	-	-
Changes in fair value of Life insurance financial assets	(1,190)	(1,618)	-	-
Trust distributions	22	93	-	-
Net profits on derivative and other financial instruments: [1]				
realised	17	11	18	20
unrealised	(29)	75	(29)	-
Net profits on financial liabilities at amortised cost	145	-	89	-
Fees and commissions:				
subsidiaries	-	-	205	114
other	267	309	254	227
Fees from trust and fiduciary activities	102	151	-	-
Other revenue	340	351	59	66
	14,189	13,167	6,289	5,437
Disclosed in the income statements as:				
Banking interest revenue	4,676	4,696	4,736	4,492
Banking fee and commission revenue	266	239	254	227
General insurance premium revenue	6,548	6,316	-	-
Life insurance premium revenue	719	698	-	-
Reinsurance and other recoveries revenue	1,187	1,162	-	-
General insurance investment revenue	826	304	-	-
Life insurance investment (loss) revenue	(698)	(843)	-	-
Other revenue	665	595	1,299	718
	14,189	13,167	6,289	5,437
Banking interest expense	(3,506)	(3,666)	(3,038)	(3,075)
Banking fee and commission expense	(98)	(90)	(99)	(95)
	10,585	9,411	3,152	2,267

Notes

(1) Included within net profits on derivatives and other financial instruments are gains of $50 million (2008: $8 million) for the Group and $26 million (2008: $15 million) for the Company on derivatives held in qualifying fair value hedging relationships, and losses of $66 million (2008: $5 million) for the Group and $42 million (2008: $11 million) for the Company representing changes in the fair value of the hedged items attributable to the hedged risk.

7. Expenses

	Consolidated		Company	
	2009	2008	2009	2008
	$m	$m	$m	$m
Interest expense				
Subsidiaries	-	-	16	24
External	3,619	3,830	3,069	3,111
Total interest expense	3,619	3,830	3,085	3,135
Operating expenses				
Staff expenses	1,507	1,521	10	38
Total staff expenses	1,507	1,521	10	38
Equipment and occupancy expenses				
Depreciation:				
Buildings	1	1	1	-
Plant and equipment	73	67	-	-
Leasehold improvements	27	21	-	-
Total depreciation	101	89	1	-
Loss on disposal of property, plant and equipment	3	7	-	-
Operating lease rentals	156	148	38	31
Other	39	34	10	13
Total equipment and occupancy expenses	299	278	49	44
Other expenses				
Hardware, software and data line expenses	110	126	33	26
Advertising and promotion expenses	172	195	28	32
Office supplies, postage and printing	102	90	27	25
Amortisation:				
Brand names	24	24	-	-
Customer and distribution relationships	129	237	-	-
Outstanding claims liability intangible	27	36	-	-
Franchise agreements	1	2	-	-
Software	109	86	-	-
Acquisition costs - insurance activities	513	452	-	-
Intra-group expenses	-	-	1,428	1,029
Financial expenses	172	201	48	46
Other	221	98	16	23
Total other expenses	1,580	1,547	1,580	1,181
Total operating expenses	3,386	3,346	1,639	1,263

8. Auditors' remuneration

	Consolidated 2009 $000	Consolidated 2008 $000	Company 2009 $000	Company 2008 $000
Audit services:				
Auditors of the Company				
KPMG Australia				
Audit and review of financial reports	5,981	5,819	905	1,538
Other regulatory audits	1,679	1,188	303	156
	7,660	7,007	1,208	1,694
Overseas KPMG Firms				
Audit and review of financial reports	1,798	1,382	-	-
Other regulatory audits	31	36	-	-
Other auditors				
Audit and review of financial reports	192	264	-	-
Other regulatory audits	-	-	-	-
	9,681	8,689	1,208	1,694
Other services:				
Auditors of the Company				
KPMG Australia				
Taxation compliance engagements	89	111	89	7
Assurance engagements	675	807	389	570
Due diligence engagements	1,220	94	1,220	94
	1,984	1,012	1,698	671
KPMG related practices				
Other regulatory audit engagements	434	395	-	-
	434	395	-	-
Overseas KPMG Firms				
Taxation compliance engagements	-	79	-	-
Assurance engagements	132	22	-	-
	132	101	-	-
Other auditors				
Assurance engagements	479	518	188	193
Taxation engagements	116	627	10	17
	3,145	2,653	1,896	881

9. Impairment losses on loans and advances

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Banking activities				
Impairment losses on loans and advances				
Increase (decrease) in collective provision for impairment (note 16)	202	(15)	195	(14)
Increase in specific provision for impairment (note 16)	453	57	451	58
Bad debts written off	57	33	44	23
Bad debts recovered	(2)	(4)	(2)	(4)
	710	71	688	63

10. Income tax

10(a) Income tax expense

	Consolidated		Company	
	2009	2008	2009	2008
	$m	$m	$m	$m
Recognised in the income statement				
Current tax expense				
Current year	299	365	143	102
Adjustments for prior years	12	1	(17)	(4)
	311	366	126	98
Deferred tax expense				
Origination and reversal of temporary differences	(257)	(288)	(191)	11
	(257)	(288)	(191)	11
Total income tax expense (benefit) in the income statement attributable to continuing operations	54	78	(65)	109
Numerical reconciliation between income tax expense (benefit) and pre-tax net profit				
Profit before tax	407	666	778	881
Income tax using the domestic corporation tax rate of 30% (2008: 30%)	122	200	233	264
Effect of tax rates in foreign jurisdictions	-	3	-	-
Increase in income tax expense due to:				
Non-deductible expenses	21	7	17	5
Imputation gross up on dividends received	4	9	-	-
Statutory funds	(54)	(83)	-	-
Income tax offsets and credits	(12)	(32)	-	-
Intercompany dividend elimination	-	-	(287)	(155)
Tax incentives not recognised in the income statement	-	(1)	-	-
Amortisation of intangible assets on acquisition	7	7	-	-
Other	(34)	(18)	(20)	-
	54	92	(57)	114
(Over) provision in prior years	-	(14)	(8)	(5)
Income tax expense (benefit) on pre-tax net profit	54	78	(65)	109

10. Income tax (continued)

10(a) Income tax expense (continued)

Income tax of the financial services business

Australia

Income tax expense includes a credit of $11 million (2008: credit of $114 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	
	2009	2008
	%	%
Class of business		
Complying superannuation business [(1)]	15	15
Ordinary class of business	30	30
Shareholder funds	30	30
Annuity and pension business [(2)]	0	0

Notes

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

New Zealand

In New Zealand, a corporate tax rate of 30% (2008: 33%) applies for all classes of businesses.

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

	Consolidated		Company	
	2009	2008	2009	2008
	$m	$m	$m	$m
Deferred tax recognised directly in equity				
Relating to available-for-sale financial assets	-	(1)	-	-
Relating to actuarial losses on defined benefit funds	(6)	(11)	-	-
Relating to cash flow hedges	(157)	30	(157)	28
Relating to other	(22)	-	(22)	-
	(185)	18	(179)	28

10(b) Current tax liabilities

The current tax liability of $154 million (2008: $32 million receivable) refers to the total current tax liability / receivable in respect of current and prior financial periods for the Suncorp-Metway Ltd tax consolidated group.

The current tax receivable of $6 million (2008: $9 million liability) refers to the total current tax receivable / 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.

The current tax liability for the Company of $154 million (2008: $32 million receivable) refers to the total current tax liabilities in respect of the current financial period and prior financial periods for 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. Income tax (continued)

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	
	2009	2008	2009	2008	2009	2008
	$m	$m	$m	$m	$m	$m
Consolidated						
Property, plant and equipment	8	12	(7)	(9)	1	3
Intangible assets	-	-	(294)	(351)	(294)	(351)
Investment property	-	-	(1)	(1)	(1)	(1)
Other investments	150	31	-	(117)	150	(86)
Deposits, debt issues and borrowings	-	-	(27)	(4)	(27)	(4)
Employee benefits	51	47	-	-	51	47
Provisions	338	167	(14)	(19)	324	148
Other items	96	124	(40)	(62)	56	62
Tax assets (liabilities)	643	381	(383)	(563)	260	(182)
Set off of tax	(383)	(381)	383	381	-	-
Net tax assets (liabilities)	260	-	-	(182)	260	(182)

	Assets		Liabilities	
	2009	2008	2009	2008
Movements	$m	$m	$m	$m
Balance at the beginning of the financial year	381	403	(563)	(857)
Credited (charged) to the income statement	246	(34)	11	322
Credited (charged) to equity	16	12	169	(28)
Balance at the end of the financial year	643	381	(383)	(563)

	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
	$m	$m	$m	$m	$m	$m
Company						
Property, plant and equipment	2	2	-	-	2	2
Other investments	84	-	-	(96)	84	(96)
Provisions	226	54	-	-	226	54
Other items	46	32	(29)	(33)	17	(1)
Tax assets (liabilities)	358	88	(29)	(129)	329	(41)
Set off of tax	(29)	(88)	29	88	-	-
Net tax assets (liabilities)	329	-	-	(41)	329	(41)

	Assets		Liabilities	
	2009	2008	2009	2008
Movements	$m	$m	$m	$m
Balance at the beginning of the financial year	88	73	(129)	(74)
Credited (charged) to the income statement	250	15	(59)	(27)
Credited (charged) to equity	20	-	159	(28)
Balance at the end of the financial year	358	88	(29)	(129)

There are no unrecognised deferred tax assets and liabilities.

Following a review of the tax consolidation calculation it has been identified that the deferred tax liability previously recognised as part of acquisition accounting for Promgroup Ltd was understated. This has been treated as a prior period adjustment and an adjustment of $8 million made to restate the opening balances of deferred tax liabilities and goodwill in 2008.

10. Income tax (continued)

10(d) Tax consolidation

Suncorp-Metway Ltd elected to form a tax consolidated group from 1 July 2002. Following the acquisition of Promgroup Limited and immediately before 1 July 2007, the Promgroup Ltd tax consolidated group joined the Suncorp-Metway Ltd tax consolidated group to form a single tax consolidated group.

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

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

11. Earnings per share

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

	Consolidated	
	2009	2008
Basic earnings per share - cents	31.62	60.23
Diluted earnings per share - cents	31.11	60.23

The prior year diluted and basic earnings per share have been restated to reflect the change in accounting policy with respect to the defined benefit funds and the effect of the current year entitlement offer on the weighted average number of ordinary shares in the prior year.

The calculation of diluted earnings per share at 30 June 2009 was based on profit attributable to ordinary shareholders of $385 million (2008: $583 million) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 1,238,819,876 (2008: 967,928,250), calculated as follows:

	Consolidated	
	2009 $m	2008 $m
Profit attributable to ordinary equity holders of the Company (basic)	348	583
Interest expense on reset preference shares (net of tax)	5	-
Interest expense on convertible preference shares (net of tax)	32	-
Profit attributable to ordinary equity holders of the Company (diluted)	385	583

	2009 No of shares	2008 No of shares
Weighted average number of ordinary shares for basic earnings per share calculation	1,100,499,476	967,928,250
Effect of conversion of reset preference shares	22,959,116	-
Effect of conversion of convertible preference shares	115,361,284	-
Weighted average number of ordinary shares for diluted earnings per share calculation	1,238,819,876	967,928,250

12. Cash and cash equivalents

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Cash and balances with the central bank	235	400	98	118
Other money market placements	2,121	603	1,269	98
Total cash and cash equivalents	2,356	1,003	1,367	216
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	2,356	1,003	1,367	216
Add: Receivables due from other banks	118	263	118	263
Less: Payables due to other banks	(29)	(45)	(29)	(45)
	2,445	1,221	1,456	434

13. Trading securities

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Banking activities				
Interest bearing securities at fair value				
Bank bills, certificates of deposits and other negotiable securities	6,694	5,685	6,694	5,685
Total trading securities	6,694	5,685	6,694	5,685

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

14. Investment securities

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Banking activities				
Investments at cost				
Shares in subsidiaries at cost	-	-	10,627	9,814
Shares held in trust	-	6	-	1
	-	6	10,627	9,815
Available-for-sale investments				
Interest bearing securities				
Negotiable securities	3,932	1,254	3,932	1,254
Equity securities	-	13	1	13
	3,932	1,267	3,933	1,267
	3,932	1,273	14,560	11,082
General Insurance activities				
Quoted investments designated at fair value through profit or loss				
Interest bearing securities				
Debentures and corporate bonds	5,933	3,993	-	-
Government and semi-government securities	2,784	2,710	-	-
Discounted securities	705	1,889	-	-
	9,422	8,592	-	-
Equity securities	1	875	-	-
Property trusts	-	24	-	-
Unit trusts	59	71	-	-
Other	-	58	-	-
	9,482	9,620	-	-
Unquoted investments designated at fair value through profit or loss				
Property trusts	-	14	-	-
	-	14	-	-
	9,482	9,634	-	-
Life activities				
Investments designated at fair value through profit or loss				
Interest bearing securities				
Debentures and corporate bonds	2,049	2,986	-	-
Government and semi-government securities	392	364	-	-
Discounted securities	273	345	-	-
	2,714	3,695	-	-
Equity securities	1,410	1,654	-	-
Property trusts	243	371	-	-
Unit trusts	2,330	2,497	-	-
Other	219	25	-	-
	6,916	8,242	-	-
Total investment securities	20,330	19,149	14,560	11,082

14. Investment securities (continued)

At 30 June 2009 the amount of investment securities pledged as collateral for liabilities under sale and repurchase agreements was nil (2008: $191 million). These transactions are conducted under terms that are usual and customary for repurchase agreements.

15. Loans, advances and other receivables

	Consolidated		Company	
	2009 $m	2008 $m	2009 $m	2008 $m
Banking activities [1]				
Housing loans [2]	28,302	27,247	28,301	27,245
Consumer loans	610	863	610	863
Business loans	25,460	26,103	23,772	23,752
Structured finance	4	5	4	5
Other lending	1,018	589	1,012	901
Bank acceptances of customers	3	865	3	865
	55,397	55,672	53,702	53,631
Provision for impairment (note 16)	(759)	(154)	(740)	(144)
	54,638	55,518	52,962	53,487
General Insurance activities				
Premiums outstanding [3]	1,670	1,401	-	-
Investment revenue receivable [3]	5	59	-	-
Investment settlements [3]	1	28	-	-
Insurance managed funds receivable [4]	60	33	-	-
Insurance recoveries and other receivables [3]	39	3	-	-
	1,775	1,524	-	-
Life Insurance activities				
Premiums outstanding [3]	21	19	-	-
Investment revenue receivable [3]	35	37	-	-
Investment settlements [3]	37	17	-	-
Reinsurance recoveries receivable [3]	77	55	-	-
Other [4]	170	173	-	-
	340	301	-	-
Total loans, advances and other receivables	56,753	57,343	52,962	53,487
Current	11,401	11,493	9,095	9,484
Non-current	45,352	45,850	43,867	44,003
Total loans, advances and other receivables	56,753	57,343	52,962	53,487

Notes
(1) Banking loans and receivables are measured at amortised cost.
(2) Includes securitised housing loan balances of $6.1 billion (2008: $6.4 billion) which has an associated securitised liability of $6.1 billion (2008: $6.4 billion).
(3) Financial assets designated at fair value through profit or loss.
(4) Financial assets measured at amortised cost.

16. Provision for impairment

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Banking activities				
Collective provision				
Balance at the beginning of the financial year	80	95	74	88
Charge (credit) against impairment losses (note 9)	202	(15)	195	(14)
Balance at the end of the financial year	282	80	269	74
Specific provision				
Balance at the beginning of the financial year	74	25	70	20
Charge against impairment losses (note 9)	453	57	451	58
Charge against interest income	(50)	(8)	(50)	(8)
Balance at the end of the financial year	477	74	471	70
Total provision for impairment of loans, advances and other receivables	759	154	740	144

17. Reinsurance and other recoveries

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
General Insurance				
Expected undiscounted outstanding reinsurance and other recoveries	1,432	1,307	-	-
Discount to present value	(121)	(178)	-	-
	1,311	1,129	-	-
Life Insurance				
Gross policy liabilities ceded under reinsurance	311	253	-	-
	311	253	-	-
Current	703	532	-	-
Non-current	919	850	-	-
Total outstanding reinsurance and other recoveries	1,622	1,382	-	-

18. Deferred insurance assets

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Deferred acquisition costs [(1)]				
Deferred acquisition costs at beginning of the financial year	575	350	-	-
Acquisition costs deferred	1,120	1,197	-	-
Amortisation charged to the income statement	(1,068)	(972)	-	-
Write off for liability adequacy test deficiency	(19)	-	-	-
Deferred acquisition costs at end of the financial year	608	575	-	-
Deferred reinsurance assets				
Deferred reinsurance assets at beginning of financial year	113	96	-	-
Reinsurance premiums paid during the year	591	469	-	-
Reinsurance premiums charged to the income statement	(568)	(449)	-	-
Acquisition (disposal) of subsidiaries	-	(3)	-	-
Deferred reinsurance assets at end of financial year	136	113	-	-
Current	730	681	-	-
Non-current	14	7	-	-
Total deferred insurance assets	744	688	-	-

Notes

(1) Deferred acquisition costs in relation to Life Insurance activities are those incremental acquisition costs deferred on investment contracts.

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.

Name of entity	Country of Incorporation	Principal activity	Ownership interest 2009 %	Ownership interest 2008 %	Consolidated carrying amount 2009 $m	Consolidated carrying amount 2008 $m
Associates						
NTI Ltd [1][5]	Australia	Management Services	50	50	44	-
RAC Insurance Pty Ltd	Australia	Insurance	-	50	-	100
AA Warranty Ltd [2]	New Zealand	Non-trading	50	50	-	-
AA Life Servces Ltd [3]	New Zealand	Marketing of financial services products	50	50	-	-
Capital Managers Pty Ltd	Australia	Distribution	22	20	-	-
Standard Pacific (Qld) Pty Ltd	Australia	Distribution	50	50	1	-
MMc Limited [2]	New Zealand	Funds administration	50	50	1	1
					46	101
Joint venture entities						
RACQ Insurance Limited [1]	Australia	Insurance	50	50	112	112
RAA - GIO Insurance Holdings Ltd	Australia	Insurance	50	50	16	14
Australand Land and Housing No 5 (Hope Island) Pty Ltd	Australia	Property investment	50	50	5	9
Australand Land and Housing No 7 (Hope Island) Pty Ltd	Australia	Property investment	50	50	5	9
Australand Land and Housing No 8 (Hope Island) Pty Ltd	Australia	Property investment	50	50	5	9
RACT Insurance Pty Ltd [4]	Australia	Insurance	70	70	12	10
					155	163
					201	264

	Principal activity	2009 %	2008 %
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

Notes

(1) RACQ Insurance Ltd and NTI Ltd have a 31 December balance date.
(2) AA Warranty Ltd and MMc Limited have a 31 March balance date.
(3) AA Life Services Ltd has a 30 September balance date.
(4) While the Group's ownership interest in RACT Insurance Pty Ltd is 70%, strategic and operating decisions relating to its activities are made jointly.
(5) The carrying amount of the investment in NTI Ltd was recognised on the balance sheet as an asset held for sale at 30 June 2008.

19. Investments in associates and joint ventures (continued)

19(a) Investments in associates

	Consolidated 2009 $m	Consolidated 2008 $m
Movements in carrying amounts of associates		
Balance at the beginning of the financial year	101	152
Share of profits from ordinary activities after income tax	-	3
Amortisation of intangible assets acquired	-	(10)
Increased investments in associates	-	1
Transfer from (to) assets held for sale	45	(45)
Disposal of associate	(100)	-
Balance at the end of the financial year	46	101
Results of associates		
Share of associates' profit before income tax	1	4
Share of income tax expense	(1)	(1)
Share of associates' net profit - as disclosed by associates	-	3
Share of associates' lease commitments	-	6
Summary financial information of associates		
Revenues (100%)	54	370
Profit (loss) (100%)	2	9
Share of associates' net profit (loss) recognised	-	3
Total assets (100%)	41	508
Total liabilities (100%)	(34)	(318)
Net assets as reported by associates (100%)	7	190
Share of associates' net assets equity accounted	46	101

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

19. Investments in associates and joint ventures (continued)

19(b) Investments in joint venture entities

	Consolidated 2009 $m	Consolidated 2008 $m
Movements in carrying amounts of joint venture entities		
Balance at the beginning of the financial year	163	178
Share of (losses) profits after income tax	(3)	8
Dividends received/receivable	-	(26)
Impairment losses	(19)	(13)
Increased investments in joint venture entities	14	16
Balance at the end of the financial year	155	163
Results of joint venture entities		
Share of joint venture entities' profit before income tax	4	11
Share of income tax expense	(7)	(3)
Share of joint venture entities' net (loss) profit - as disclosed by joint venture entities	(3)	8
Share of joint venture entities' lease commitments	5	1
Summary financial information of joint venture entities		
Revenues (100%)	675	664
Expenses (100%)	682	648
(Loss) profit (100%)	(6)	16
Share of joint venture entities' net (loss) profit recognised	(3)	8
Current assets (100%)	558	482
Non-current assets (100%)	822	718
Current liabilities (100%)	(651)	(568)
Non-current liabilities (100%)	(433)	(340)
Net assets as reported by joint venture entities (100%)	296	292
Share of joint venture entities' net assets equity accounted	155	163

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 balance sheet are as follows:

	Consolidated 2009 $m	Consolidated 2008 $m
Other assets - development property	49	89
Property, plant and equipment	71	-
Total joint venture assets	120	89
Share of joint ventures' commitments	-	7

20. Property, plant and equipment

Consolidated	Land $m	Buildings $m	Leasehold Improve-ments $m	Plant & Equipment $m	Capital works in progress $m	Total $m
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	-	-	-	(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
2008						
Gross carrying amount	4	43	282	479	13	821
Less: accumulated depreciation and impairment losses	-	(17)	(173)	(281)	-	(471)
Balance at the end of the financial year	4	26	109	198	13	350
Movements in property, plant and equipment						
Balance at the beginning of the financial year	4	27	121	157	11	320
Additions	-	-	11	84	44	139
Disposals	-	-	(9)	(11)	-	(20)
Depreciation	-	(1)	(21)	(67)	-	(89)
Transfers between categories	-	-	7	35	(42)	-
Balance at the end of the financial year	4	26	109	198	13	350

Company

The Company's property, plant and equipment comprises: land and buildings of $34 million (2008: $30 million), leasehold improvements of $5 million (2008: nil) and plant and equipment nil (2008: $2 million).

21. Investment property

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Freehold land and buildings				
Balance at the beginning of the financial year	171	221	-	-
Additions / capitalised expenditure	4	3	-	-
Disposals	(3)	-	-	-
Property classified as held for sale	-	(105)	-	-
Fair value adjustments	(12)	52	-	-
Balance at the end of the financial year	160	171	-	-

During the financial year ended 30 June 2009, $22 million (2008: $34 million) was recognised as rental income in the consolidated income statement and $7 million (2008: $22 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 2009 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 $122 million (2008: $136 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 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Less than one year	10	10	-	-
Between one and five years	39	39	-	-
More than five years	15	26	-	-
	64	75	-	-

22. Other assets

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Deferred expenditure - lease brokerage	14	25	-	-
Accrued income [(1)]	211	238	116	141
Prepayments	88	75	20	20
Sundry assets [(2)]	60	169	138	200
Surplus on defined benefit funds	2	15	-	-
Current tax receivable	6	32	-	32
Development properties	49	89	1	-
Total other assets	430	643	275	393
Current	379	539	274	393
Non-current	51	104	1	-
Total other assets	430	643	275	393

(1) Financial assets designated at fair value through profit or loss.
(2) Comprises predominantly financial assets carried at amortised cost.

23. Goodwill and intangible assets

Consolidated	Goodwill $m	Brands $m	Customer contracts & other relationships $m	Outstanding claims liability intangible $m	Franchise systems $m	Software $m	Total $m
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
Disposals/write-offs	-	-	-	-	-	(18)	(18)
Balance at the end of the financial year	5,135	593	843	106	7	152	6,836
2008							
Gross carrying amount	5,391	661	1,283	187	15	510	8,047
Less: accumulated amortisation and impairment losses	(260)	(44)	(311)	(54)	(7)	(273)	(949)
Balance at the end of the financial year	5,131	617	972	133	8	237	7,098
Movements in intangible assets							
Balance at the beginning of the financial year	5,160	641	1,197	169	10	288	7,465
Acquisitions through business combinations	4	-	2	-	-	-	6
Other acquisitions	-	-	-	-	-	35	35
Amortisation	-	(24)	(227)	(36)	(2)	(86)	(375)
Foreign currency exchange movement	(29)	-	-	-	-	-	(29)
Disposals/write-offs	(4)	-	-	-	-	-	(4)
Balance at the end of the financial year	5,131	617	972	133	8	237	7,098

Following a review of the tax consolidation calculation it has been identified that the deferred tax liability previously recognised as part of acquisition accounting for Promgroup Ltd was understated. This has been treated as a prior period adjustment and an adjustment of $8 million made to restate the opening balances of goodwill in 2008.

23. Goodwill and intangible assets (continued)

23(a) Methods and assumptions for valuation

Franchise systems

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

Brands

Fair value of brands has been determined using the relief from royalty method except for the Promina brand which has been valued on replacement cost basis. In determining the value of brands, royalty rates have been determined based on the strengths of each brand and its importance to the customers' purchasing decisions. Royalty rates have been applied to net earned premiums for 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

The fair value of in-force business has been 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

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

Distribution relationships

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

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. Goodwill and intangible assets (continued)

23(b) Amortisation and impairment charge

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

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

23(c) Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	Consolidated		Company	
	2009	2008	2009	2008
	$m	$m	$m	$m
General Insurance - Commercial unit	1,392	1,613	-	-
General Insurance - Personal unit	2,791	2,570	-	-
Life unit	452	454	-	-
Vero New Zealand unit	250	244	-	-
Banking unit	250	250	-	-
	5,135	5,131	-	-

The Group's 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.

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.

Value in use for the banking and general insurance CGU's 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 seven year period from 1 July 2009. Management believe the use of a seven year profit forecast is more appropriate than a shorter period as it includes a number of years of more normalised returns in addition to the next few years of emerging from the global financial crisis. Cash flows beyond the next seven years are extrapolated using a constant growth rate of 3.0% (2008: 3.5%), which does not exceed the long-term average growth rate for the industry.
- Discount rates used are pre-tax and range from 12.8% to 14.8% (equivalent to 10.0% to 11.5% on a post-tax basis (2008: 12.2% to 14.8% (equivalent to 9.5% to 11.5% on a post-tax basis)) representing each CGU's cost of capital based on a weighted average of risk based capital.
- Investment returns on technical reserves for the general insurance business units approximate 5% 2009/10 increasing to an average of 6.5% for 2010/11 to 2015/16 in the expectation that investment markets will return to more normal settings.
- Growth rates premium income vary across classes of business and over the forecast period, having regard to management's view of likely premium rate increases and current and future market share.
- Loss ratios and operating expense ratios (aggregated in the table below as "combined operating ratio") have been projected forward based on historical performance.

The table below 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.

23. Goodwill and intangible assets (continued)

23(c) Impairment tests for cash generating units containing goodwill (continued)

	Discount rate		Terminal growth rate		Investment returns 2010/11 to 2015/16		Average Growth in Net Earned Premium		Combined Operating Ratio[1]	
Cash generating unit	**Assumed**	**Trigger point**	**Assumed**	**Trigger point**	**Assumed**	**Trigger point**	**Assumed**	**Trigger point**	**Assumed**	**Trigger point**
Personal Insurance	10.0%	12.85%	3.0%	n/a	6.5%	3.15%	5.1%	n/a	96.3%	n/a
Commercial Insurance	10.0%	11.33%	3.0%	0.5%	6.5%	5.34%	4.5%	2.0%	98.7%	108.7%
Vero New Zealand	10.0%	n/a	3.0%	n/a	6.5%	n/a	8.3%	n/a	91.2%	n/a
Banking	11.5%	13.2%	3.0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a

n/a = Assumption not relevant to this CGU or trigger point highly unlikely to be reached.

(1) – Sensitivity only relates to the seven year forecast period

The recoverable amount of the Life CGU has been determined by reference to an 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 independently assessed as at 31 December 2008 using discounted cashflow techniques and market consistent methodologies. The value of the businesses other than the Life Companies within the Life CGU was also independently assessed as at 31 December 2008. Key assumptions in the value-in-use calculations include the effective risk-adjusted discount rates (that arises in utilising market consistent techniques) and the multiple applied to the value of one year's sales.

The recoverable amount based on this value-in-use assessment is significantly in excess of the carrying value of the Life CGU.

The risk-adjusted discount rates would need to increase by approximately 2.4% before the value-in-use would fall below the current carrying value of the Life CGU.

The value-in-use amount is not reasonably sensitive to changes in the assumption regarding multiple of one year sales, as the embedded value of the existing portfolio already exceeds the current carrying value of the Life CGU without adding any allowance for new business.

At 30 June 2009, 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.

24. Deposits and short-term borrowings

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Unsecured				
Call deposits	10,041	10,380	10,152	11,064
Term deposits	13,430	11,211	13,430	11,211
Short-term securities issued	11,497	16,606	11,497	16,606
Offshore borrowings at amortised cost	136	173	136	173
Offshore borrowings designated at fair value through profit or loss	2,573	4,574	2,573	4,574
Drawdown facility (1)	130	123	-	-
Accrued interest	59	80	59	80
Total deposits and short-term borrowings	37,866	43,147	37,847	43,708

Notes

(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 its short-term offshore borrowing program as being fair value through profit or loss. All other deposits and short-term borrowings are recognised at amortised cost.

Deposits and short-term borrowings outstanding at 30 June 2009 of $3,235 million (2008: nil) have been obtained under repurchase agreements with the Reserve Bank of Australia.

25. Payables and other liabilities

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Overdrafts	66	-	-	-
Outstanding settlements for subordinated notes repurchased	321	-	321	-
Unpresented bank cheques	38	58	38	58
Accrued interest payable	415	318	406	274
Amounts due to reinsurers	96	62	-	-
Trade creditors and accrued expenses	1,028	1,425	490	602
Investment settlements (1)	336	42	-	-
Other liabilities	42	51	-	-
Total payables and other liabilities	2,342	1,956	1,255	934
Current	2,300	1,905	1,255	934
Non-current	42	51	-	-
Total payables and other liabilities	2,342	1,956	1,255	934

Notes

(1) Settlements relating to the investment securities of the General Insurance and Life business are recognised at fair value.

26. Employee benefit obligations

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Deficit of plan assets over defined benefit obligations	25	18	-	-
Employee benefits and related on-costs liabilities	226	232	-	-
Total employee benefit obligations	251	250	-	-
Provision for employee benefits - current	179	181	-	-
Provision for employee benefits - non-current	72	69	-	-
Total employee benefit obligations	251	250	-	-

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 2009	Consolidated 2008
Weighted average rate of increases in annual employee benefits to settlement	3.0% - 4.0%	4.0% - 5.0%
Weighted average discount rate	4.56% - 5.45%	5.70% - 6.57%
Weighted average term to settlement of liabilities	3 - 7 years	4 - 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 (2008: seven) defined benefits superannuation plans for employees. In total, three (2008: three) funds are established for Australian employees, and four (2008: 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, 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 (2008: three Australian and two New Zealand funds were in surplus, while the other two New Zealand funds were in deficit). The Group has no obligation to settle any liabilities with an immediate contribution or additional one-off contributions. The Group intends to continue to contribute to the defined benefit funds at rates of 0% - 20% (2008: 0% - 20.6%) 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 $5 million.

In the prior financial year, the amount of the surplus recognised for the Guardian Assurance Superannuation Plan was restricted to an amount lower than the fair value of the plan assets less the present value of the defined benefit obligation, in accordance with accounting standards.

	Surplus 2009 $m	(Deficit) 2009 $m	Net Surplus/ (Deficit) 2009 $m	Surplus 2008 $m	(Deficit) 2008 $m	Net Surplus/ (Deficit) 2008 $m
Defined benefit funds - Surplus (Deficit) position						
Australia						
Suncorp Staff Superannuation Plan	1	-	1	2	-	2
Promina Group Staff Superannuation Fund	-	(1)	(1)	7	-	7
AAMI Staff Superannuation Fund	-	-	-	2	-	2
New Zealand						
Vero and Asteron New Zealand Staff Pension Scheme	-	(18)	(18)	-	(15)	(15)
RIG Superannuation Fund	-	(5)	(5)	-	(3)	(3)
Commercial Union General Insurance Staff Pension Scheme	-	(1)	(1)	1	-	1
Guardian Assurance Superannuation Fund	1	-	1	3	-	3
Total Surplus (Deficit)	2	(25)	(23)	15	(18)	(3)

26. Employee benefit obligations (continued)

26(a) Defined benefit funds (continued)

	Consolidated 2009 $m	Consolidated 2008 $m
Present value of the defined benefit funds		
Fair value of fund assets at 30 June 2009 (2008: 30 June 2008)	154	198
Defined benefit obligations as at 30 June 2009 (2008: 30 June 2008)	(169)	(192)
Reduction in surplus for amount unable to be recognised under AASB 119	-	(5)
Adjustment for contributions tax	(8)	(4)
Net liability recognised in the balance sheet	(23)	(3)
Changes in the present value of the defined benefit obligation:		
Defined benefit obligation at the beginning of the financial year	192	212
Current service cost	6	6
Interest cost	8	9
Actuarial (gains) losses	(10)	8
Benefits paid	(28)	(28)
Foreign currency exchange movement	1	(15)
Defined benefit obligation at the end of the financial year	169	192
Changes in the fair value of fund assets:		
Fair value of fund assets at the beginning of the financial year	198	251
Expected return on fund assets	12	16
Actuarial losses	(37)	(31)
Contributions by Group subsidiaries	8	5
Benefits paid	(28)	(28)
Foreign currency exchange movement	1	(15)
Fair value of fund assets at the end of the financial year	154	198
Expense (income) recognised in the income statement		
Current service cost	6	6
Interest cost	8	9
Expected return on fund assets	(12)	(16)
	2	(1)
The expense (income) is recognised in the following line items in the income statement:		
Other income	(1)	-
Operating expenses	3	(1)
	2	(1)
Expense recognised in the statement of recognised income and expense		
Actuarial losses	27	39
Decrease in allowance for contributions tax on net liability	2	5
Effect of recognition limit on surplus	(5)	(6)
	24	38
Cumulative actuarial losses (gains) recognised in the statement of recognised income and expense [(1)]	5	(19)
Actual return on fund assets	(19)	(15)
	%	%
Major categories of funds assets as a percentage of total fund assets:		
Cash	9	7
Equities	55	61
Listed property	6	2
Fixed income	30	27
Other	-	3

Notes

(1) Total cumulative actuarial gains recognised in equity have been determined from commencement of AIFRS.

26. Employee benefit obligations (continued)

26(a) Defined benefit funds (continued)

	Consolidated 2009 %	2008 %
Principal actuarial assumptions and employer contributions:		
(at the balance sheet date expressed as weighted averages)		
Australia		
Employer contribution rate [(1)]	14.8	14.7
Discount rate at 30 June (net of tax)	4.8	5.5
Expected return on fund assets at 30 June (net of tax)	6.9	7.1
Future salary increases	3.1	4.0
New Zealand		
Employer contribution rate [(1)]	0 - 20	1 - 20
Discount rate at 30 June (net of tax)	4.2	4.5
Expected return on fund assets at 30 June (net of tax)	6.0	5.5
Future salary increases	4.0	5.0

[(1)] Not all funds are contributing for members.

The overall expected long-term rate of return on assets is 6.9% (2008: 7.1%) in Australia and 6.0% (2008: 5.5%) in New Zealand. 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 2009 $m	2008 $m	2007 $m	2006 $m	2005 $m
Historic Summary					
Present value of defined benefit obligations	(169)	(192)	(212)	(6)	(6)
Fair value of assets held by the funds	154	198	251	9	8
Surplus (deficit)	(15)	6	39	3	2
Experience gains (losses) arising on fund liabilities	4	(11)	11	-	-
Experience gains (losses) arising on fund assets	(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 2009 were $90 million (2008: $88 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 by the Company 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. There may be changes to the features of the plans effective 1 July 2009 as a result of proposed amendments to the operation of employee share plans introduced in the Federal budget in May 2009.

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.

26. Employee benefit obligations (continued)

26(c) Share-based payments (continued)

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 or the Company may offer shares to employees as part of their terms of employment. Shares offered to employees under this Plan as part of their terms of employment are subject to achievement of tenure-based criteria or criteria based on the individual's performance.
Price	Shares acquired from employees' pre-tax remuneration are purchased on market. 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. If entitlement to shares is subject to performance criteria, those shares will vest when that criteria is satisfied.
Performance Criteria	If the acquisition of the shares is funded through the employee's remuneration no performance criteria apply. If the acquisition of shares is funded by the Company then performance criteria are applied. Those criteria will either be tenure-based or based on the individual's performance over specified periods.
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	Executive Officers
Basis of Share Offers	Offers under this Plan can be made on commencement of employment however offers are also made on an annual basis. The value of shares offered is determined by the Board based on the participating Executive Officer's level of remuneration and individual performance. 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.

26. Employee benefit obligations (continued)

26(c) Share-based payments (continued)

EPSP (continued)

Performance Criteria (continued)	If the Company's TSR ranking is less than the 50th percentile no shares will vest, at the 50th percentile 50% of shares will vest and at or above the 75th percentile 100% of the shares will vest. Between the 50th and 75th percentiles, an additional 2% of the shares will vest for each 1% increase (on a straight line basis) in the Company's TSR ranking above the 50th percentile. A performance period generally commences on the date of offer to participate in the Plan and the first performance measurement point is three years after the offer date. The Executive Officer 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. If the Executive Officer elects to accept the year three performance result, any shares subject to that same offer that are not allocated are forfeited. After year three, performance measurements are undertaken on a six monthly basis, in March and September each year, up to the end of year five. Executive Officers 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 Executive Officer's entitlement to an allocation of shares at the end of year five will be based on the highest performance measurement result recorded at any of the prescribed performance measurement points over the period from the end of year three to the end of year five inclusive. Shares not allocated at the end of year five are forfeited.
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.

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. If a director elects to participate, they nominate a percentage of their pre-tax remuneration that is to be used to fund the acquisition of shares on market. Shares acquired are held in the Plan for a maximum of ten years from the date of acquisition.
Price	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.

26. Employee benefit obligations (continued)

26(c) Share-based payments (continued)

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 share $	Number of shares 30 June 2009	Number of shares 30 June 2008
1 October 2003	30 September 2006	7.090	-	63,390
1 October 2004	30 September 2007 (1) (7)	17.865	71,687	71,687
1 October 2004	30 September 2007 (2)	20.755	-	100,000
1 October 2005	30 September 2008 (3) (7)	24.790	65,757	343,301
1 October 2005	30 September 2008 (4)	29.410	-	120,000
1 October 2006	30 September 2009	12.410	502,550	532,559
1 April 2007	30 September 2009 (5)	11.410	232,619	321,760
17 April 2007	30 September 2007 (6) (7)	20.570	2,365	5,672
17 April 2007	30 September 2008 (6) (7)	20.570	2,168	17,678
17 April 2007	30 September 2009 (6)	7.790	16,568	17,537
1 October 2007	30 September 2010	14.600	1,103,696	1,284,219
1 October 2008	30 September 2011	4.320	2,210,148	-
1 April 2009	30 September 2011	4.320	23,750	-
			4,231,308	2,877,803

Notes:

(1) Fair value of these shares was revised from $9.005 to $17.865 as a result of the waiver of TSR criteria upon a modification of a condition on 24 October 2006.
(2) Fair value of these shares was revised from $9.005 to $20.755 as a result of the waiver of TSR criteria upon a modification of a condition on 7 June 2007.
(3) Fair value of these shares was revised from $11.22 to $24.79 as a result of the waiver of TSR criteria upon a modification of a condition on 24 October 2006.
(4) Fair value of these shares was revised from $11.22 to $29.41 as a result of the waiver of TSR criteria upon a modification of a condition on 7 June 2007.
(5) Offer to Promina executives in line with the terms and conditions of the EPSP on 1 April 2007.
(6) Adjustment to shares assigned as a result of the entitlement offer made on 17 April 2007.
(7) Some employees elected to extend the vesting period by a further two years.

26. Employee benefit obligations (continued)

26(c) Share-based payments (continued)

Deferred Shares (continued)

The movement in the number of shares is as follows:

	Number of shares 2009	Number of shares 2008
Outstanding at the beginning of the financial year	2,877,803	2,417,373
Granted during the year	2,455,743	1,343,984
Allocated during the year	(236,590)	(512,339)
Forfeited during the year	(764,284)	(310,428)
Released during the year	(101,364)	(60,787)
Outstanding at the end of the financial year	4,231,308	2,877,803

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.

	01-Oct-04	01-Oct-05	01-Oct-06	01-Apr-07	01-Oct-07	01-Oct-08	01-Apr-09
Fair value at measurement date	$9.005	$11.220	$12.410	$11.410	$14.600	$4.320	$4.320
Share price	$15.47	$19.71	$21.94	$20.80	$20.35	$9.61	$5.90
Expected volatility (based on the Company's historic volatility)	20%	20%	17%	19%	19%	31%	31%
Vesting period	3 years	3 years	3 years	2.5 years	5 years	3 years	2.5 years
Dividend yield	5.3%	4.7%	4.9%	5.0%	5.1%	7.2%	7.2%
Risk-free interest rate (based on Australian Government bonds)	5.172%	5.340%	5.800%	6.200%	6.440%	5.240%	5.240%

The amount included in the consolidated income statement in relation to the EPSP for the year ended 30 June 2009 was $15 million (2008: $13 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
2009 financial year	Various dates	1,194,713	Various, based on market value at date of issue	$9 million	$5 million
2008 financial year	Various dates	743,173	Various, based on market value at date of issue	$13 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.

27. Unearned premium liabilities

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Balance at the beginning of the financial year	3,263	3,206	-	-
Premiums written during the year	6,809	6,415	-	-
Premiums earned during the year	(6,548)	(6,316)	-	-
Foreign currency exchange movement	4	(42)	-	-
Balance at the end of the financial year	3,528	3,263	-	-
Current	3,517	3,255	-	-
Non-current	11	8	-	-
Total unearned premium liabilities	3,528	3,263	-	-

28. Outstanding claims liabilities

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Outstanding claims - general insurance	7,369	7,010	-	-
Outstanding claims - life insurance	137	130	-	-
Total outstanding claims liabilities	7,506	7,140	-	-

Outstanding claims liabilities – General Insurance

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Gross central estimate - undiscounted	7,204	7,217	-	-
Risk margin	1,186	1,101	-	-
Claims handling expenses	319	321	-	-
	8,709	8,639	-	-
Discount to present value	(1,340)	(1,629)	-	-
Gross outstanding claims liabilities - discounted	7,369	7,010	-	-
Current	2,675	2,743	-	-
Non-current	4,694	4,267	-	-
Gross outstanding claims liabilities - discounted	7,369	7,010	-	-

Reconciliation of movement in discounted outstanding claims liabilities

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Opening net outstanding claims liabilities	5,881	6,001	-	-
Prior periods				
Claims payments	(1,710)	(1,516)	-	-
Discount unwind	190	250	-	-
Margin release on prior periods	(204)	(166)	-	-
Incurred claims due to changes in assumptions and experience	(454)	(384)	-	-
Change in discount rate	263	(32)	-	-
Change in risk margin percentage	-	(339)	-	-
Current period				
Incurred claims	4,835	4,710	-	-
Claims payments	(2,742)	(2,643)	-	-
Closing net outstanding claims liabilities	6,059	5,881	-	-
Reinsurance and other recoveries on outstanding claims liabilities	1,310	1,129	-	-
Gross outstanding claims liabilities - discounted	7,369	7,010	-	-

28. Outstanding claims liabilities (continued)

Outstanding claims liabilities – General Insurance (continued)

Claims development table

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the eight 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**	**Total $m**
Consolidated										
Estimate of ultimate claims cost:										
At end of accident year		796	1,021	1,045	1,173	1,210	1,245	1,291	1,295	
One year later		957	994	1,059	1,064	1,119	1,179	1,152		
Two years later		936	932	924	938	1,038	1,074			
Three years later		869	828	833	898	962				
Four years later		854	722	762	847					
Five years later		789	668	722						
Six years later		780	644							
Seven years later		773								
Current estimate of cumulative claims cost		773	644	722	847	962	1,074	1,152	1,295	
Cumulative payments		(701)	(551)	(551)	(560)	(467)	(329)	(174)	(64)	
Outstanding claims - undiscounted	780	72	93	171	287	495	745	978	1,231	4,852
Discount	(293)	(9)	(14)	(24)	(38)	(62)	(98)	(145)	(211)	(894)
Deferred premium	-	-	-	-	-	-	-	-	(10)	(10)
Outstanding claims - long tail	487	63	79	147	249	433	647	833	1,010	3,948
Outstanding claims - short tail										911
Claims handling expense										271
Risk margin										929
Total net outstanding claims liability										6,059
Reinsurance and other recoveries on outstanding claims liabilities										1,310
Total gross outstanding claims liabilities										7,369

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 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Investment contract policy liabilities				
Gross investment contract liabilities at beginning of financial year	3,938	4,707	-	-
Movement in investment contract policy liabilities reflected in the income statement	(452)	(520)	-	-
Foreign currency exchange movement	5	(38)	-	-
Investment contract contributions recognised in policy liabilities	665	808	-	-
Investment contract withdrawals recognised in policy liabilities	(698)	(981)	-	-
Fee expense recognised as change in policy liabilities	(35)	(38)	-	-
Gross investment contract policy liabilities at end of financial year	3,423	3,938	-	-
Insurance contract policy liabilities				
Gross insurance contract liabilities at beginning of financial year	2,855	3,279	-	-
Movement in insurance contract policy liabilities reflected in the income statement	(357)	(340)	-	-
Foreign currency exchange movement	-	(13)	-	-
Insurance contract contributions recognised in policy liabilities	431	474	-	-
Claims expense recognised recognised in policy liabilities	(805)	(545)		
Gross insurance contract policy liabilities at end of financial year	2,124	2,855	-	-
Total gross policy liabilities	5,547	6,793	-	-
Current	368	762	-	-
Non-current	5,179	6,031	-	-
Total life insurance policy liabilities	5,547	6,793	-	-
Unvested policyowner benefits				
Unvested policyowner benefits at beginning of financial year	314	242	-	-
Foreign currency exchange movement	-	(2)	-	-
Increase in unvested policyowner benefits	83	74	-	-
Unvested policyowner benefits at end of financial year	397	314	-	-
Liabilities ceded under reinsurance				
Liabilities ceded under reinsurance at beginning of financial year	253	255	-	-
Foreign currency exchange movement	-	(1)	-	-
Movement in reinsurance assets reflected in the income statement	58	(1)	-	-
Liabilities ceded under reinsurance at end of financial year	311	253	-	-
Current	(3)	(6)	-	-
Non-current	314	259	-	-
Liabilities ceded under reinsurance	311	253	-	-

30. Managed funds units on issue

	Consolidated		Company	
	2009	2008	2009	2008
	$m	$m	$m	$m
Managed funds units on issue - current	506	813	-	-

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.*

31. Securitisation liabilities

	Consolidated		Company	
	2009	2008	2009	2008
	$m	$m	$m	$m
Secured				
Class A1 Note invested AUD	2,342	2,241	-	-
Class A1 Note invested EUR	85	108	-	-
Class A1 Note invested USD	64	71	-	-
Class A2 Note invested EUR	1,343	1,588	-	-
Class A2 Note invested USD	57	59	-	-
Class A3 Note invested AUD	142	183	-	-
Class B Notes AUD	222	264	-	-
Short-term Warehouse Securities AUD	1,456	1,895	-	-
Total securitisation liabilities at amortised cost	5,711	6,409	-	-
Current	2,556	3,467	-	-
Non-current	3,155	2,942	-	-
Total securitisation liabilities at amortised cost	5,711	6,409	-	-

32. Debt issues

	Consolidated		Company	
	2009	2008	2009	2008
	$m	$m	$m	$m
Unsecured				
Offshore borrowings	11,477	4,504	11,487	4,504
Domestic borrowings issued	4,184	2,244	4,523	2,244
Total debt issues at amortised cost	15,661	6,748	16,010	6,748
Current	1,847	2,276	1,847	2,276
Non-current	13,814	4,472	14,163	4,472
Total debt issues at amortised cost	15,661	6,748	16,010	6,748

33. Subordinated notes

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Fixed rate notes due June 2013 (USD)	127	100	127	100
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	208	191	208	191
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)	220	246	220	246
Fixed rate notes due October 2017 with first call October 2012 (GBP)	537	672	537	672
Fixed rate notes due September 2024 with first call September 2014	130	123	-	-
Floating rate notes due September 2024 with first call September 2014	53	65	-	-
Fixed rate notes due September 2025 with first call September 2015	118	125	-	-
Floating rate notes due September 2025 with first call September 2015	81	125	-	-
Fixed rate notes due October 2026 with first call October 2016	98	90	-	-
Fixed rate notes due June 2027 with first call June 2017 (GBP)	249	411	-	-
Perpetual floating rate notes	171	170	171	170
Total subordinated notes at amortised cost - non-current	2,312	2,638	1,583	1,699

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

In line with APRA's capital adequacy measurement rules, perpetual floating rate notes are included in upper tier 2 capital. The term subordinated notes are included in lower tier 2 capital and are reduced by 20% for each of their last five years to maturity.

34. Preference shares

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
1,440,628 reset preference shares each fully paid (2008: 1,440,628)	144	144	144	144
7,350,000 convertible preference shares each fully paid (2008: 7,350,000)	721	719	721	719
Total preference shares at amortised cost	865	863	865	863

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 note holders and are entitled to the proceeds of liquidation only to the extent of the issue price of the shares.

34. Preference shares (continued)

Convertible preference shares

The Company's convertible preference shares ("CPS") issued on 12 June 2008 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 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, subordinated noteholders and non-participating shares.

35. Capital and reserves

35(a) Reconciliation of movement in capital and reserves

	Share capital			Reserves							
2009	**Issued capital $m**	**Share-based payments $m**	**Treasury shares $m**	**General reserves for credit losses $m**	**Hedging reserve $m**	**Assets available-for-sale reserve $m**	**Other reserves $m**	**Retained profits $m**	**Total $m**	**Minority interests $m**	**Total equity $m**
Consolidated											
Balance at the beginning of the financial year	10,855	28	(84)	159	120	9	(79)	1,352	12,360	6	12,366
Total recognised income and expense	-	-	-	-	(374)	11	-	348	(15)	5	(10)
Defined benefit fund actuarial losses	-	-	-	-	-	-	-	(18)	(18)	-	(18)
Transfer to general reserve for credit losses	-	-	-	36	-	-	-	(36)	-	-	-
Shares issued	1,625	-	-	-	-	-	-	-	1,625	-	1,625
Share-based remuneration	-	23	-	-	-	-	-	-	23	-	23
Treasury shares movements	-	-	(22)	-	-	-	-	-	(22)	-	(22)
Currency translation differences	-	-	-	-	-	-	9	-	9	1	10
Net gains or losses from available-for-sale investments transferred to the Income Statement	-	-	-	-	-	(14)	-	-	(14)	-	(14)
Dividends to shareholders	-	-	-	-	-	-	-	(725)	(725)	(6)	(731)
Balance at the end of the financial year	12,480	51	(106)	195	(254)	6	(70)	921	13,223	6	13,229

35. Capital and reserves (continued)

35(a) Reconciliation of movement in capital and reserves (continued)

	Share capital			Reserves							
	Issued capital	Share-based payments	Treasury shares	General reserves for credit losses	Hedging reserve	Assets available-for-sale reserve	Other reserves	Retained profits	Total	Minority interests	Total equity
2008											
Consolidated											
Balance at the beginning of the financial year	10,419	18	(75)	119	64	3	30	1,812	12,390	1	12,391
Total recognised income and expense	-	-	-	-	56	3	-	583	642	5	647
Defined benefit fund actuarial losses	-	-	-	-	-	-	-	(27)	(27)	-	(27)
Transfer to general reserve for credit losses	-	-	-	40	-	-	-	(40)	-	-	-
Shares issued	436	-	-	-	-	-	-	-	436	-	436
Share-based remuneration	-	10	-	-	-	-	-	-	10	-	10
Treasury shares movements	-	-	(9)	-	-	-	-	-	(9)	-	(9)
Currency translation differences	-	-	-	-	-	-	(96)	-	(96)	-	(96)
Transfer pre-conversion reserve to retained profits	-	-	-	-	-	-	(13)	13	-	-	-
Net gains or losses from available for sale investments transferred to the income statement	-	-	-	-	-	3	-	-	3	-	3
Dividends to shareholders	-	-	-	-	-	-	-	(989)	(989)	-	(989)
Balance at the end of the financial year	10,855	28	(84)	159	120	9	(79)	1,352	12,360	6	12,366

	Share capital		Reserves					
2009	Issued capital $m	Share-based payments $m	General reserve for credit losses $m	Hedging reserve $m	Assets available-for-sale reserve $m	Other reserves $m	Retained profits $m	Total $m
Company								
Balance at the beginning of the financial year	10,855	27	159	124	8	-	674	11,847
Total recognised income and expense	-	-	-	(383)	11	-	843	471
Transfer to general reserve for credit losses	-	-	36	-	-	-	(36)	-
Shares issued	1,625	-	-	-	-	-	-	1,625
Share-based remuneration	-	22	-	-	-	-	-	22
Net gains or losses from available-for-sale investments transferred to the Income Statement	-	-	-	-	(13)	-	-	(13)
Dividends to shareholders	-	-	-	-	-	-	(729)	(729)
Balance at the end of the financial year	12,480	49	195	(259)	6	-	752	13,223
2008								
Company								
Balance at the beginning of the financial year	10,419	17	119	67	-	13	922	11,557
Total recognised income and expense	-	-	-	57	5	-	772	834
Transfer to general reserve for credit losses	-	-	40	-	-	-	(40)	-
Shares issued	436	-	-	-	-	-	-	436
Shares-based remuneration	-	10	-	-	-	-	-	10
Transfer pre-conversion reserve to retained profits	-	-	-	-	-	(13)	13	-
Net gains or losses from available-for-sale investments transferred to the Income Statement	-	-	-	-	3	-	-	3
Dividends to shareholders	-	-	-	-	-	-	(993)	(993)
Balance at the end of the financial year	10,855	27	159	124	8	-	674	11,847

35. Capital and reserves (continued)

35(b) Share capital

	Ordinary shares		Non-participating shares	
	2009 '000	2008 '000	2009 '000	2008 '000
Company				
Balance at the beginning of the financial year	955,528	924,895	2	2
Issued under the Dividend Reinvestment Plan	32,831	14,709	-	-
Issued under an Underwriting Agreement	13,539	15,924	-	-
Conversion of non-participating shares to ordinary shares	2	-	(2)	-
Issued to existing institutional and other major shareholders	109,785	-	-	-
Issued under entitlements offer	145,692	-	-	-
Balance at the end of the financial year	1,257,377	955,528	-	2

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 1 new share for every 5 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 2008, 34,701,430 (2008: 6,184,414) ordinary shares were issued at $9.61 (2008: $19.53) under the Dividend Reinvestment Plan (includes ordinary shares issued pursuant to an Underwriting Agreement) in respect of the 30 June 2008 (2008: 30 June 2007) final dividend.

On 1 April 2009, 11,668,884 (2008: 24,449,780) ordinary shares were issued at $5.91 (2008: $12.88) under the Dividend Reinvestment Plan in respect of the 30 June 2009 interim dividend.

35(c) Share-based payments

Share-based payments represent the fair value of equity settled share-based remuneration provided to employees.

35(d) Treasury shares

Treasury shares represent the value of shares held by a subsidiary that the Group is required 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 Group's own equity instruments.

35(e) General reserves for credit losses

The general reserve for credit losses comprises transfers from retained profits required where the Group's specific and collective provisions for impairment are insufficient to absorb credit losses across the credit cycle based on guidance provided by APRA.

35(f) 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.

35(g) Assets available-for-sale reserve

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

35. Capital and reserves (continued)

35(h) Other reserves

Pre-conversion reserve

Retained profits and reserves of Metropolitan Permanent Building Society ("the Society"), amounting to $13 million as at 1 July 1988, being the date of conversion of the Society to Suncorp-Metway Ltd (then known as Metway Bank Limited), were placed in a pre-conversion reserve account. Under a trust arrangement the reserve was not available for distribution to shareholders in the ordinary course of business. Upon meeting the conditions for termination of the trust on 30 June 2008, the reserve has been transferred to retained profits.

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(i) 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 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. The Group is subject to transitional relief while restructuring the organisational structure. At the end of the restructure the Level 2 General Insurance group will comprise Promgroup Limited as the authorised non-operating holding company of the General Insurance group and its subsidiaries. "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. Where appropriate, adjustments are made to capital targets in light of changes in economic conditions and risk characteristics of the Group's activities. Capital policy is reviewed regularly and as part of the most recent review, it was determined that an increase in internal capital targets due to the current difficult financial conditions was appropriate.

The Group satisfied all externally imposed capital requirements to which it is subject during the financial year.

35. Capital and reserves (continued)

35(i) Capital Management (continued)

Group capital (continued)

The following table (including consolidation entries) demonstrates the distribution of capital.

	as at 30 June 2009					
	Banking $m	General Insurance (4) $m	Life $m	Other $m	Consolidation (5) $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)	859	355	785	69	(1,587)	481
Preference shares	879	-	-	-	-	879
Insurance liabilities in excess of liability valuation	-	415	-	-	-	415
Less goodwill, brands	(7,818)	(1,181)	-	-	2,314	(6,685)
Less software assets	(66)	(9)	-	-	(79)	(154)
Less deductible capitalised expenses	(118)	-	-	-	-	(118)
Less deferred tax asset	(186)	(184)	-	-	227	(143)
Less other required deductions (2)	(1)	(2)	-	-	-	(3)
Less tier 1 deductions for investments in subsidiaries, capital support	(1,424)	-	-	-	1,424	-
Total tier 1 capital	4,709	2,446	1,503	86	(1,488)	7,256
Tier 2						
APRA general reserve for credit losses	392	-	-	-	-	392
Asset revaluation reserves	3	-	-	-	-	3
Subordinated notes	1,636	784	-	-	(1)	2,419
Less tier 2 deductions for investments in subsidiaries, capital support	(1,424)	-	-	-	1,424	-
Total tier 2 capital	607	784	-	-	1,423	2,814
Total capital base	5,316	3,230	1,503	86	(65)	10,070
Target capital base (3)	4,995	2,994	1,399	17	-	9,405
Excess	321	236	104	69	(65)	665

Notes:

(1) For Banking and domestic General Insurance, this represents the APRA calculation of retained profits. 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 and Other businesses.

(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 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.

(5) The consolidation column includes internal adjustments made to the APRA MCR calculation to fully risk weight exposures of the General Insurance business to unregulated Group subsidiaries and Joint Ventures.

35. Capital and reserves (continued)

35(i) Capital Management (continued)

Group capital (continued)

	as at 30 June 2008					
	Banking $m	General Insurance [4] $m	Life $m	Other $m	Consolidation [5] $m	Total $m
Tier 1						
Ordinary share capital	10,882	-	-	-	-	10,882
Subsidiary share capital (eliminated upon consolidation)	-	2,216	545	294	(3,055)	-
Reserves	5	6	-	-	-	11
Retained profits [1]	676	1,153	751	(151)	(714)	1,715
Preference Shares	879	-	-	-	-	879
Insurance liabilities in excess of liability valuation	-	333	-	-	-	333
Less goodwill, brands	(7,798)	(1,077)	(15)	-	2,036	(6,854)
Less software assets	(86)	(9)	(4)	-	(137)	(236)
Less deductible capitalised expenses	(67)	-	-	-	-	(67)
Less deferred tax asset	(22)	(101)	(29)	-	152	-
Less other required deductions [2]	(2)	(249)	-	(54)	(344)	(649)
Less tier 1 deductions for investments in subsidiaries, capital support	(1,015)	-	-	-	1,015	-
Total tier 1 capital	3,452	2,272	1,248	89	(1,047)	6,014
Tier 2						
APRA general reserve for credit losses	197	-	-	-	-	197
Subordinated notes	1,819	940	-	-	-	2,759
Less tier 2 deductions for investments in subsidiaries, capital support	(1,015)	-	-	-	1,015	-
Total tier 2 capital	1,001	940	-	-	1,015	2,956
Total capital base	4,453	3,212	1,248	89	(32)	8,970
Target capital base [3]	4,265	2,884	1,172	27	(14)	8,334
Excess	188	328	76	62	(18)	636

Note: Refer previous page for footnotes (1),(2),(3),(4),(5).

Internally, an Economic Capital framework has been developed and is used as a tool to analyse the level of risk and measure relative performance.

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 is divided 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 Tier 1 capital". Non-innovative Residual Tier 1 capital comprises instruments such as perpetual non-cumulative preference shares and Innovative 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.

35. Capital and reserves (continued)

35(i) Capital Management (continued)

Banking capital adequacy (continued)

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 12.8% (2008: 10.4%) compared to the internal target range of 11.5% to 12% (2008: 10.0% to 10.5%). 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 carry on insurance business 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% (2008: 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 is 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:

	2009	2008	Internal target
General Insurance MCR			
Domestic General Insurance group	1.60	1.66	1.55
General Insurance Group	1.67	1.73	1.55

35. Capital and reserves (continued)

35(i) Capital Management (continued)

General Insurance minimum capital ratio (continued)

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 businesses 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 balance sheet. The Life Insurance businesses hold a target surplus of capital in excess of the prescribed minimum. Where capital falls below this target surplus, the Life Insurance businesses 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 Investment 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 businesses are set in note 40(f).

36. Dividends

	Company			
	2009		2008	
	Cents per share	$m	Cents per share	$m
Ordinary shares				
Final 2008 dividend (franked) paid 1 October 2008 (2008: 1 October 2007)	55	526	55	509
Interim 2009 dividend (franked) paid 1 April 2009 (2008: 1 April 2008)	20	203	52	484
Total dividends on ordinary shares		729		993
Reset preference shares recognised as liability				
Half-yearly dividend (franked) paid 15 September 2008 (2008: 15 September 2007), recognised in interest expense	255	4	255	4
Half-yearly dividend (franked) paid 16 March 2009 (2007: 14 March 2008), recognised in interest expense	251	4	253	4
Total dividends on reset preference shares		8		8
Convertible preference shares recognised as liability				
Quarterly dividend (franked) paid 15 September 2008 (2008: nil), recognised in interest expense	202	15	-	-
Quarterly dividend (franked) paid 15 December 2008 (2008: nil), recognised in interest expense	183	13	-	-
Quarterly dividend (franked) paid 16 March 2009 (2008: nil), recognised in interest expense	135	10	-	-
Quarterly dividend (franked) paid 15 June 2009 (2008: nil), recognised in interest expense	109	8	-	-
Total dividends on convertible preference shares		46		-
Dividends not recognised in the balance sheet				
In addition to the above dividends, since year end the directors have proposed the following:				
Final 2009 dividend (franked) expected to be paid on 1 October 2009 (2008: 1 October 2008) out of retained profits at 30 June 2009, but not recognised as a liability in the balance sheet	20	251	55	526
Total dividends not recognised in the balance sheet		251		526

Franked dividends proposed, declared or paid during the year were fully franked at the tax rate of 30% (2008: 30%).

The amount of dividends paid disclosed in the reconciliation of movement in capital and reserves reflects dividends paid by the Company adjusted for the elimination of dividends received by subsidiaries.

36. Dividends (continued)

	Company 2009 $m	Company 2008 $m
Dividend franking account		
The franked portions of the dividends recommended after 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 2010.		
Franking credits available for subsequent financial years based on a tax rate of 30% (2008: 30%)	631	682

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

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

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

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

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $109 million (2008: $233 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 in respect of all key risks. The universe of risks includes credit, market, liquidity, insurance, operational and compliance, and strategic risks. The framework includes a written Risk Management Strategy ("RMS") for the Group's APRA regulated entities which describes at a high level the accountabilities, principles, policies and practices, systems and tools, and reporting processes used to manage risk.

The Board Risk Committee has delegated authority from the Board to approve and oversee the processes used to identify, evaluate and manage risk and recommends the Group's risk appetite to the Board. Management has the primary responsibility and accountability for embedding the risk management framework within the business operations of the Group. Management oversees and approves the principles, policies, limits, frameworks and processes used by the Group to identify, assess, monitor and control/mitigate risk. Group functions provide monitoring and advisory functions on an independent basis and facilitate the reporting of the status, appropriateness and quality of risk management capabilities to the Board Risk Committee.

The Group has in place a structured approach to risk profiling. Each business unit completes a risk profile covering risks within that business line. Recognising that risk profiles change over time, management is required to monitor and manage these on an ongoing basis.

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 foreign exchange rates, interest rates, equity prices, market volatilities and liquidity. Market risk arises from exposures to interest rates and foreign exchange rates in Banking trading and non-trading activities. Market risk in General Insurance and Life arises from the risk of adverse moves in interest rates, foreign exchange rates, equity prices, credit spreads and prices of other financial contracts including derivatives.

37. Risk management (continued)

- 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 in the Group from structure and characteristics of assets and liabilities and in the mismatch in 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 claims 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. Compliance risk is the risk of legal or regulatory sanctions, financial loss, or loss to reputation the Group may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards. Operational and compliance risk affects all business units within the Group. The main categories of operational risk are internal and external fraud, processing failure, system failure, disasters and business interruption and risks associated with products, clients and business practices, vendor, suppliers and service providers, employment practices and workplace safety. Operational risks which cross all business units such as business continuity, regulatory compliance, outsourcing, IT security as well as employment practices and workplace safety are subject to group-wide policy and framework and are coordinated centrally.
- Strategic risk - the risk of loss arising from uncertainty about the future operating environment, including reputation, industry, economic and regulatory environment, branding, crises management, and alliances and suppliers. Strategic risks relate to the Group's business strategy and tactical initiatives that are articulated in business plans.

During the year a business unit, dedicated to the risk function, and the position of Group Chief Risk Officer ("CRO") were established to continue to elevate the role of risk in the organisation and enhance the focus on execution. Chief Risk Officers are in place in Banking and Life, with the appointment of a General Insurance Chief Risk Officer in the near future. They are supported by a committee framework to embed ownership, understanding and awareness of risk in the business.

Further details of the risk management framework as it applies 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 2009 $m	Consolidated Banking 2008 $m
Net interest income [1]		
Interest revenue	4,702	4,659
Interest expense	(3,585)	(3,629)
	1,117	1,030
Net banking fee and commission income		
Fee and commission revenue	266	239
Fee and commission expense	(98)	(91)
	168	148
Other operating revenue		
Net profits on derivative and other financial instruments [2]	76	22
Other income	15	44
	91	66
Non-interest income	259	214
Total income from Banking activities	1,376	1,244
Operating expenses		
Staff expenses	(307)	(339)
Equipment and occupancy expenses	(93)	(81)
Hardware, software and data line expenses	(39)	(30)
Advertising and promotion	(27)	(31)
Office supplies, postage and printing	(23)	(22)
Other	(60)	(43)
	(549)	(546)
Contribution to profit from Banking activities before impairment losses on loans and advances and tax	827	698
Impairment losses on loans and advances	(710)	(71)
Contribution to profit before tax from Banking activities	117	627

Notes

(1) The only components of interest income and expense reported above that does not relate to financial assets or liabilities that are not at fair value through profit and loss is the interest income and expenses related to derivatives and trading assets designated at fair value through profit and loss of $699 million (2008: $542 million) and liabilities designated at fair value through profit and loss of $124 million (2008: $175 million).

(2) Included within 'net profits on derivative and other financial instruments' 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 2009 $m	Consolidated Banking 2008 $m
Tier 1		
Fundamental Tier 1		
Ordinary share capital	12,584	10,882
Reserves	-	5
Retained profits	859	676
	13,443	11,563
Residual Tier 1		
Reset preference shares	144	144
Convertible preference shares	735	735
Residual Tier 1 transferred to Upper Tier 2	-	(22)
	879	857
Tier 1 deductions		
Goodwill and other intangibles arising on acquisition	(7,818)	(7,798)
Software assets	(66)	(86)
Other intangible assets	(118)	(67)
Deferred tax asset	(186)	(22)
Other Tier 1 deductions	(1)	(2)
Tier 1 deductions for investments in subsidiaries, capital support	(1,424)	(1,015)
	(9,613)	(8,990)
Total Tier 1 capital	4,709	3,430
Tier 2		
Upper Tier 2		
APRA general reserve for credit losses	392	197
Perpetual subordinated notes	170	170
Asset revaluation reserves	3	-
Residual Tier 1 transferred to Upper Tier 2	-	22
	565	389
Lower Tier 2		
Subordinated notes	1,466	1,649
	1,466	1,649
Tier 2 deductions		
Tier 2 deductions for investments in subsidiaries, capital support	(1,424)	(1,015)
Total Tier 2 capital	607	1,023
Capital base	5,316	4,453
Total assessed risk	41,626	42,650
Risk weighted capital ratio	12.77%	10.44%

38. Specific disclosures – Banking (continued)

38(b) Banking capital adequacy (continued)

Risk-weighted assets

	Consolidated Banking			
	Carrying value		Risk weighted balance	
	2009 $m	2008 $m	2009 $m	2008 $m
Assets				
Cash items	210	365	23	35
Claims on Australian and foreign governments	1,169	260	3	1
Claims on central banks, international banking agencies, regional development banks, ADIs and overseas banks	3,794	581	759	119
Claims secured against eligible residential mortgages	24,664	23,162	9,896	9,996
Past due claims	2,113	511	2,213	696
Other assets and claims	23,524	26,175	23,152	25,700
Total banking assets	55,474	51,054	36,046	36,547

	Notional value 2009 $m	Credit equiv-alent 2009 $m	Risk weighted balance 2009 $m	Risk weighted balance 2008 $m
Off balance sheet positions				
Guarantees entered into in the normal course of business	349	210	190	186
Commitments to provide loans and advances	7,389	2,104	1,576	2,273
Capital commitments	45	45	45	96
Foreign exchange contracts	21,996	557	154	91
Interest rate contracts	64,173	503	237	136
Total off balance sheet positions	93,952	3,419	2,202	2,782
Market risk capital charge			499	597
Operational risk capital charge			2,879	2,724
Total off balance sheet positions			2,202	2,782
Total risk weighted assets			36,046	36,547
Total assessed risk			41,626	42,650
Risk weighted capital ratios			%	%
Tier 1			11.31	8.04
Tier 2			1.46	2.40
Total risk weighted capital ratio			12.77	10.44

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 decision individual credit assessments where the exposure exceeds the level of authority delegated to Management.

38. Specific disclosures – Banking (continued)

38(c) Banking risk management (continued)

Credit risk (continued)

The acceptance and management of credit risk is performed independently as is setting and maintaining of detailed credit policies and standard. The Board has put in place independent 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 (ie 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 customer's 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, automatic transfer to a central Credit Recovery unit.

A structure of industry concentration limits has been developed to monitor exposure levels within the risk-graded portfolio. These are tactical limits upon which business planning and developmental activity is based but also act as guidelines for portfolio concentration purposes.

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 Group's Banking capital resources (Tier 1 and Tier 2 capital) are as follows:

	Consolidated Banking	
	2009 Number	2008 Number
25 percent and greater	-	-
20 percent to less than 25 percent	5	-
15 percent to less than 20 percent	1	-
10 percent to less than 15 percent	2	5
5 percent to less than 10 percent	2	5

38. Specific disclosures – Banking (continued)

38(c) Banking risk management (continued)

Credit risk (continued)

Risk concentrations with respect to the Banking assets of the Group 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 have 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									
2009	**Receivables due from other banks $m**	**Trading securities $m**	**Investment securities $m**	**Loans, advances and other receivables $m**	**Credit commitments $m**	**Derivative instruments $m**	**Total risk $m**	**Individually provisioned impaired assets $m**	**Past due $m**	**Total not past due or impaired $m**
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	28,339
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	66,086
Impairment provisions							(759)	(477)	(207)	(75)
							68,738	997	1,729	66,011
2008										
Agribusiness	-	-	-	3,706	52	-	3,758	14	30	3,714
Construction and development	-	-	-	6,154	1,308	-	7,462	267	158	7,037
Financial services	263	5,685	1,273	1,910	98	743	9,972	-	-	9,972
Hospitality	-	-	-	1,730	-	-	1,730	4	40	1,686
Manufacturing	-	-	-	928	-	-	928	2	6	920
Professional services	-	-	-	851	-	-	851	2	6	843
Property investment	-	-	-	7,515	-	-	7,515	61	64	7,390
Real estate - Mortgage	-	-	-	27,608	1,313	-	28,921	10	1,225	27,686
Personal	-	-	-	864	-	-	864	-	23	841
Government and public authorities	-	-	-	8	-	-	8	-	-	8
Other commercial and industrial	-	-	-	4,708	362	-	5,070	24	110	4,936
Total gross credit risk	263	5,685	1,273	55,982	3,133	743	67,079	384	1,662	65,033
Impairment provisions							(154)	(74)	(80)	-
							66,925	310	1,582	65,033

38. Specific disclosures – Banking (continued)

38(c) Banking risk management (continued)

Credit risk (continued)

	Company									
2009	**Receivables due from other banks $m**	**Trading securities $m**	**Investment securities $m**	**Loans, advances and other receivables $m**	**Credit commitments $m**	**Derivative instruments $m**	**Total risk $m**	**Individually provisioned impaired assets $m**	**Past due $m**	**Total not past due or impaired $m**
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
2008										
Agribusiness	-	-	-	3,706	52	-	3,758	12	29	3,717
Construction and development	-	-	-	6,154	1,308	-	7,462	266	155	7,041
Financial services	263	5,685	1,268	1,910	98	743	9,967	-	-	9,967
Hospitality	-	-	-	1,730	-	-	1,730	3	39	1,688
Manufacturing	-	-	-	928	-	-	928	2	4	922
Professional services	-	-	-	851	-	-	851	1	4	846
Property investment	-	-	-	7,515	-	-	7,515	61	64	7,390
Real estate - Mortgage	-	-	-	27,608	1,313	-	28,921	10	1,225	27,686
Personal	-	-	-	864	-	-	864	-	23	841
Government and public authorities	-	-	-	8	-	-	8	-	-	8
Other commercial and industrial	-	-	-	2,357	362	-	2,719	16	102	2,601
Total gross credit risk	263	5,685	1,268	53,631	3,133	743	64,723	371	1,645	62,707
Impairment provisions							(144)	(71)	(73)	-
							64,579	300	1,572	62,707

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.

38. Specific disclosures – Banking (continued)

38(c) Banking risk management (continued)

Credit risk (continued)

	Consolidated Banking		Company	
	2009	2008	2009	2008
	$m	$m	$m	$m
Non Performing Loans - Impaired				
Individually managed	1,474	384	1,440	371
Allowance for impairment	(477)	(74)	(472)	(71)
Collectively managed	342	212	330	201
Allowance for impairment	(80)	(55)	(69)	(48)
	1,259	467	1,229	453
Non Performing Loans - Not Impaired				
Collectively managed - Not Impaired	4,156	2,992	4,090	2,967
Allowance for impairment	(127)	(25)	(124)	(25)
	4,029	2,967	3,966	2,942
Performing Loans				
Retail banking loans	26,976	25,822	26,974	25,819
Business banking loans	22,415	26,572	20,852	24,272
Includes amounts with renegotiated terms	16	-	16	-
Allowance for impairment	(75)	-	(75)	-
	49,332	52,394	47,767	50,091
Total carrying amount	54,620	55,828	52,962	53,486

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 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 97% 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 business and 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 the note 3(o)(i).

An estimate of the fair value of collateral and other security enhancements held by the banking group against Non Performing Loans – Impaired is $1,764 million (2008: $1,593 million) and held by the Company is $1,660 million (2008: $1,536 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
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
2008												
Loans and advances (1)												
Retail banking	841	228	106	101	55	1,331	841	228	106	101	55	1,331
Business banking (2)	-	178	47	106	-	331	-	165	45	104	-	314
	841	406	153	207	55	1,662	841	393	151	205	55	1,645

Notes

(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.

38. Specific disclosures – Banking (continued)

38(c) Banking risk management (continued)

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 and taken to the income statement on a fair value basis.

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 Asset and Liability Committee who review risk measures and limits, provide guidance, endorse non-traded interest rate risk strategy and monitor execution of strategy.

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

The principal objective of non-traded interest rate risk management is to maximise and stabilise net interest income and the present value of the balance sheet over time providing secure and sustainable net interest income in the long-term.

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

The risk to the net interest-earnings over the next 12 months from a change in interest rates is measured on at least a monthly basis. A simulation model is used to combine underlying financial position data with assumptions about new business and expected repricing behaviour to calculate the Banking 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 Group. A number of supplementary scenarios comprising variations in size and timing of interest rate moves together with changes in the balance sheet size and mix are also used to provide a range of net interest income outcomes.

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.

38. Specific disclosures – Banking (continued)

38(c) Banking risk management (continued)

Market risk (continued)

Interest rate risk (continued)

Non-traded interest rate risk (continued)

	Company and Consolidated Banking 2009 %	Company and Consolidated Banking 2008 %
Exposure at the end of the year	1.45	-
Average monthly exposure during the year	1.26	0.38
High month exposure during the year	2.81	1.02
Low month exposure during the year	-	-

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

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

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

	Company and Consolidated Banking 2009 $m	Company and Consolidated Banking 2008 $m
Exposure at the end of the year	51	66
Average monthly exposure during the year	43	46
High month exposure during the year	76	66
Low month exposure during the year	16	27

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 2009 $m	Company and Consolidated Banking 2008 $m
Exposure at the end of the year	47	50
Average monthly exposure during the year	39	23
High month exposure during the year	64	50
Low month exposure during the year	18	14

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.

38. Specific disclosures – Banking (continued)

38(c) Banking risk management (continued)

Market risk (continued)

Interest rate risk (continued)

Traded interest rate risk (continued)

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

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

	Company and Consolidated Banking	
	2009	2008
	$m	$m
VaR at the end of the year	0.91	0.83
Average VaR during the year	1.23	0.58
Maximum VaR during the year	2.80	3.41
Minimum VaR during the year	0.64	0.04

Foreign exchange risk

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

Non-traded foreign exchange risk

Non-traded foreign exchange risk arises where investments in non-Australian operations expose current and future earnings to movements in foreign exchange rates. The objective of foreign currency exchange risk management is to minimise the impact on earnings of any such movements. The policy is to fully hedge any such exposure and accordingly minimal exposure to non-traded foreign exchange risk exists. All offshore borrowing facilities arranged as part of the overall funding diversification process (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 and Risk Management section of the Group Treasury division. Traded foreign exchange risk is independently monitored against approved policies on a daily basis by the Market Risk section of the Group Risk division.

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

	Company and Consolidated Banking	
	2009	2008
	$m	$m
VaR at the end of the year	0.52	0.06
Average VaR during the year	0.29	0.18
Maximum VaR during the year	1.55	0.59
Minimum VaR during the year	0.03	0.02

38. Specific disclosures – Banking (continued)

38(c) Banking risk management (continued)

Market risk (continued)

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	
	2009 $m	2008 $m
VaR at the end of the year	1.24	0.84
Average VaR during the year	1.26	0.57
Maximum VaR during the year	2.67	2.96
Minimum VaR during the year	0.64	0.05

Liquidity risk

The Board Risk Committee approves liquidity policies and reviews relevant risk limits. Executive management of liquidity risk is delegated to the Asset and Liability Committee, which reviews risk measures and limits, provides guidance, endorses and monitors the funding and the 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 Treasury division. Liquidity risk is independently monitored against approved policies on a daily basis by the Market Risk function.

Liquidity risk across the financial system was severely tested by the Global Financial Crisis. The government and the RBA have implemented initiatives to alleviate the heightened risk profile, including the introduction of the government guarantee for deposits and wholesale funding issues and the RBAs expansion of securities eligible for liquidity repurchase. The Group has undertaken actions to strengthen its liquidity and funding profile during the year. Specifically the Bank reduced its reliance on short-term wholesale funding and increased its liquid asset holdings through:

- Raising $11 billion of term debt, $7 billion above the forecast requirement, one of the objectives being to reduce refinancing risk in light of the decision to place a significant component of its lending assets in run-off;
- Increasing the weighted average term of balance sheet liabilities to 1.32 years at 30 June 2009 compared to 0.69 years at 30 June 2008;
- Accessing a variety of new investors to raise funds in domestic and international markets, utilising the Government guarantee, with terms ranging from one to five years; and
- At 30 June 2009 liquid assets (excluding on balance sheet residential mortgage backed securitisation 'RMBS' RBA repurchase capacity) totalled $10.3 billion, a prudential liquid asset ratio of 16.7% which is well excess of the required regulatory minimum. This compared to a ratio position of 12.5% at June 2008.

The Bank also has available significant additional funding through its own balance sheet RMBS facilities, eligible for liquidity repurchase with the RBA in a crisis scenario.

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 Group'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:

	Consolidated Banking and Company	
	2009	2008
	$m	$m
Australian funding sources		
Retail deposits	23,620	22,219
Wholesale funding	12,872	18,446
AUD domestic programme	5,223	2,925
Securitisation (1)	4,644	4,590
	46,359	48,180
Overseas wholesale funding sources		
European commercial paper and medium term note market	7,219	8,706
Subordinated note programme	884	1,018
United States commercial paper programme	-	368
United States 144a medium term note market	6,662	-
Japanese yen bond programme	172	-
Securitisation	1,549	1,826
	16,486	11,918
	62,845	60,098
Comprised of the following:		
Deposits from other banks	3,235	238
Other money market deposits	2,656	3,964
Amounts owed to other depositors	21,418	18,914
Certificates of deposits	8,262	16,606
Promissory notes and other liabilities evidenced by paper	2,573	4,574
Other borrowed funds	24,701	15,802
	62,845	60,098

Notes

(1) Funds raised from securitisation through the Apollo trusts are on-lent to the Company through intercompany loan arrangements.

38. Specific disclosures – Banking (continued)

38(c) Banking risk management (continued)

Liquidity risk (continued)

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 cashflows 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 sheet date.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the less than 3 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.

It should be noted that the Banking group does not use this contractual maturity information as presented in the management of the balance sheet. Additional factors are considered when managing the maturity profiles of the business.

	Consolidated Banking						
2009	**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**
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)	253	-	253	-	-	-	253
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
	64,317	10,816	19,059	13,561	23,906	1,300	68,642
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
2008							
Deposits and short-term borrowings	44,376	12,369	23,999	7,860	1,270	2	45,500
Payables due to other banks	45	45	-	-	-	-	45
Payables and other liabilities	1,134	-	1,134	-	-	-	1,134
Derivative financial instruments (trading)	148	-	148	-	-	-	148
Securitisation liabilities	6,416	-	508	3,428	3,041	433	7,410
Debt issues	6,745	-	597	2,169	5,012	-	7,778
Subordinated notes	1,699	-	13	105	2,039	-	2,157
Preference shares	863	-	18	47	1,102	-	1,167
	61,426	12,414	26,417	13,609	12,464	435	65,339
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		-	448	2,048	4,066	-	6,562
Contractual amounts receivable		-	(337)	(1,775)	(3,744)	-	(5,856)
	482	-	111	273	322	-	706

38. Specific disclosures – Banking (continued)

38(c) Banking risk management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

	Company						
2009	**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**
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)	253	-	253	-	-	-	253
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
	65,037	10,475	20,111	13,561	23,906	1,300	69,353
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
2008							
Deposits and short-term borrowings	43,708	12,369	23,331	7,860	1,270	2	44,832
Payables due to other banks	45	45	-	-	-	-	45
Payables and other liabilities	934	-	934	-	-	-	934
Derivative financial instruments (trading)	148	-	148	-	-	-	148
Payables to subsidiaries [(1)]	10,473	-	4,565	3,428	3,041	433	11,467
Debt issues	6,748	-	597	2,169	5,012	-	7,778
Subordinated notes	1,699	-	13	105	2,039	-	2,157
Preference shares	863	-	18	47	1,102	-	1,167
	64,618	12,414	29,606	13,609	12,464	435	68,528
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		-	448	2,048	4,066	-	6,562
Contractual amounts receivable		-	(337)	(1,775)	(3,744)	-	(5,856)
	482	-	111	273	322	-	706

Notes

(1) Funds raised from securitisation through the Apollo trusts are on-lent to the Company through intercompany loan arrangements.

38. Specific disclosures – Banking (continued)

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 (based on their judgement).

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

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. It is possible that the estimated impairment loss will differ from the actual losses to be incurred from the groups of identified impaired loans.

During the year ended 30 June 2009, management reassessed its estimates in respect of the level of the Banking collective provision required over its loans, advances and other receivables. The collective provision was increased by $75 million to reflect ongoing economic deterioration.

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	
	2009	2008
	$m	$m
Net earned premium		
Direct premium revenue	6,514	6,290
Inwards reinsurance premium revenue	34	26
Premium revenue	6,548	6,316
Outwards reinsurance premium expense	(568)	(449)
	5,980	5,867
Net incurred claims		
Claims expense	(5,638)	(5,100)
Reinsurance and other recoveries revenue	1,028	1,016
	(4,610)	(4,084)
Underwriting expenses		
Acquisition costs	(1,060)	(972)
Movement in liability adequacy test deficiency	(19)	43
Other underwriting expenses	(615)	(725)
	(1,694)	(1,654)
Reinsurance commission revenue	54	41
Underwriting result	(270)	170
Investment revenue - insurance funds		
Investment income on insurance funds	749	474
Investment expense on insurance funds	(17)	(37)
	732	437
Insurance trading result	462	607
Investment income on shareholder funds	182	(170)
Investment expense on shareholder funds	(31)	(12)
Fee for service and other income (1)	265	195
Share of profits of associates and joint venture entities	(3)	11
Non-banking interest expense	(154)	(157)
Other expenses	(158)	(204)
	101	(337)
Contribution to profit from General Insurance activities before tax and amortisation	563	270

Notes

(1) Included within 'fee for service and other income' is a $57 million gain from the buy back of subordinated notes.

Segment information set out above includes transactions that have been eliminated in the consolidated income statement. Non-banking interest expense represents interest expense on subordinated note and preference shares allocated to General Insurance.

39. Specific disclosures – General Insurance (continued)

39(b) Net incurred claims

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

	Consolidated General Insurance					
	2009			2008		
	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	6,255	(882)	5,373	6,211	(1,296)	4,915
Discount and discount movement	(302)	671	369	(421)	459	38
	5,953	(211)	5,742	5,790	(837)	4,953
Reinsurance and other recoveries						
Undiscounted	(1,223)	127	(1,096)	(1,194)	178	(1,016)
Discount and discount movement	37	(90)	(53)	65	(49)	16
	(1,186)	37	(1,149)	(1,129)	129	(1,000)
Total direct business	4,767	(174)	4,593	4,661	(708)	3,953
Net inwards reinsurance			17			131
Total net claims incurred			4,610			4,084

The impact of movements in prior year net provisions on the net incurred cost for 2009 amounted to a reduction of $174 million. This is primarily due to prior year net central estimate releases and releases of risk margin which predominately related to the compulsory third party portfolio, offset by movement in the discount rate.

The prior year releases are mainly due to continued favourable incurred cost development in comparison with the original assumptions adopted. There were a variety of reasons for this favourable development, with the most general being the recognition of outworkings of the impact of tort law reform.

Quantification of the financial effect of changes in claims assumptions, experience and risk margins are 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 balance sheet.

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 deficiency

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 2009 has resulted in a deficiency in the Australian commercial insurance portfolio of $19 million. This deficiency represents 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 exceeds 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 arises as the present value of the expected future cash flows for future claims of the Australian personal insurance portfolio of $1,855 million is less than the unearned premium liability of $2,194 million less the related deferred acquisition costs of $321 million.

The LAT as at 30 June 2008 resulted in a surplus for each portfolio of contracts.

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 $2,508 million (2008: $2,298 million) comprises the discounted central estimate $2,624 million (2008: $2,387 million), and a risk margin of $66 million (2008: $58 million) less the present value of expected future cash inflows arising from reinsurance recoveries on future claims of $182 million (2008: $147 million).

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 $194 million (2008: $198 million), comprising the discounted central estimate of $190 million (2008: $185 million) and a risk margin of $4 million (2008: $13 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 2.2% (2008: 7.0%). The risk margin was determined to give a probability of adequacy of approximately 60% (2008: 75%).

The risk margin included in the Group's expected future cash flows for future claims as a percentage of the central estimate is 2.7% (2008: 2.6%). The risk margin was determined to give a probability of adequacy of approximately 57-64% (2008: 60%).

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 balance sheet.

For the year ended 30 June 2008, in addition to the change in probability of adequacy to approximately 60%, the methodology and assumptions used to calculate the risk margins also changed. The effect of these changes on a consolidated basis was an increase in deferred acquisition costs of $75 million and a decrease in underwriting expense of $75 million. Of this, $56 million related to Australian personal insurance and $19 million related to Australian commercial insurance.

39. Specific disclosures – General Insurance (continued)

39(e) Minimum capital requirements

The minimum capital requirement ("MCR") for General Insurance is set out below.

	Consolidated Insurance Group		Consolidated Domestic Insurance Group	
	2009 $m	2008 $m	2009 $m	2008 $m
Tier 1 Capital				
Share capital	3,052	2,216	2,918	2,085
Reserves	-	6	-	6
Retained profits	355	1,252	168	1,075
Insurance liabilities in excess of liability valuation	524	336	463	289
Less: Tax effect of excess insurance liabilities	(109)	(101)	(91)	(87)
	3,822	3,709	3,458	3,368
Less:				
Goodwill and other intangible assets	(1,190)	(1,087)	(1,113)	(1,010)
Other Tier 1 deductions	(186)	(350)	(186)	(350)
Total deductions from Tier 1 capital	(1,376)	(1,437)	(1,299)	(1,360)
Total Tier 1 Capital	2,446	2,272	2,159	2,008
Tier 2 Capital				
Subordinated notes	784	940	784	940
Total Tier 2 Capital	784	940	784	940
APRA capital base	3,230	3,212	2,943	2,948
Outstanding claims risk capital charge	787	771	770	755
Premium liabilities risk capital charge	453	441	422	410
Investment risk capital charge	492	622	453	591
Catastrophe risk capital charge	200	150	200	150
APRA approved adjustment	-	(126)	-	(126)
Total minimum capital requirement (MCR)	1,932	1,858	1,845	1,780
MCR coverage ratio (times)	1.67	1.73	1.60	1.66

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 has in place a Reinsurance Management Strategy which describes the reinsurance management framework, including key management responsibilities, internal controls, policies and procedures. 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 GI Technical Reserve and Shareholders funds portfolio within the current risk appetite established by the Board.

Reinsurance Management Strategies have been developed that outline the Group's management of risk in respect of reinsurance. The Group's Risk Management Statement and Reinsurance Management Strategy describe 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 general insurance prudential standards (GPS 220 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 Suncorp Group, and are consistent with the Australian Standard on Risk Management (AS/NZS 4360).

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.

39. Specific disclosures – General Insurance (continued)

39(f) General Insurance risk management (continued)

Insurance risk (continued)

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 is monitored using catastrophe models;
- The use of reinsurance to limit the Group's exposure to large single claims and accumulations of claims that arise from the same event;
- The monitoring of reinsurers' credit risk rating to control exposure to reinsurance counterparty default;
- The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claims payments with the maturity dates of assets; and
- The reduction in the variability in loss experience through diversification over classes of insurance business, geographical segments and large numbers of uncorrelated individual risks.

Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. The majority of direct insurance contracts written are entered into on a standard form basis. Insurance contracts are generally entered into on an annual basis and at the time of entering into a contract all terms and conditions are negotiable or, in the case of renewals, renegotiable. Non-standard and long-term policies may only be written if expressly approved by a relevant delegated authority. There are no special terms and conditions in any non-standard contracts that would have a material impact on the financial 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.

39. Specific disclosures – General Insurance (continued)

39(f) General Insurance risk management (continued)

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 and Poor's (or equivalent if a Standard and 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						
	AAA $m	AA $m	A $m	BBB $m	Non investment grade $m	Not Rated $m	Total $m
2009							
Cash and cash equivalents	9	598	46	-	-	14	667
Interest bearing financial assets at fair value through profit or loss	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
2008							
Cash and cash equivalents	-	154	482	-	-	22	658
Interest bearing financial assets at fair value through profit or loss	4,156	3,241	775	217	21	24	8,434
Loans and receivables	5	43	39	1	-	1,436	1,524
Reinsurance and other recoveries on outstanding claims liabilities	206	250	200	2	-	471	1,129
Other	47	39	13	1	-	13	113
	4,414	3,727	1,509	221	21	1,966	11,858

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.

39. Specific disclosures – General Insurance (continued)

39(f) General Insurance risk management (continued)

Credit risk (continued)

The carrying amount of the relevant asset classes in the balance sheet represents the maximum amount of credit exposures, except for derivatives. The fair value of derivatives shown on the balance sheet represents the current risk exposure, but not the maximum risk exposure. The face value and fair value of derivatives are illustrated in note 42(b).

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					
		0-3 mths	3-6 mths	6-12 mths	> 12 mths	Impaired	Total
	$m	$m	$m	$m	$m	$m	$m
2009							
Premiums outstanding	1,650	2	-	12	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
	3,146	18	5	14	9	1	3,193
2008							
Premiums outstanding	1,180	187	31	3	-	-	1,401
Investment revenue receivable	59	-	-	-	-	-	59
Insurance managed funds receivable	33	-	-	-	-	-	33
Investment settlements	28	-	-	-	-	-	28
Reinsurance and other recoveries on outstanding claims liabilities	1,129	-	-	-	-	-	1,129
Insurance recoveries and other receivables	-	3	-	-	-	-	3
Other	113	-	-	-	-	-	113
	2,542	190	31	3	-	-	2,766

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. This is managed via an interest rate risk hedge portfolio between benchmark and liabilities. 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. In the prior financial year, the investment portfolios also included significant holdings of equity securities. 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.

39. Specific disclosures – General Insurance (continued)

39(f) General Insurance risk management (continued)

Market risk (continued)

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 the investments in interest-bearing securities. 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 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 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 year, a movement of 200 basis points (2008: 100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

	2009				2008			
	Exposure at Jun-09 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m	Exposure at Jun-08 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m
Interest bearing investment securities	9,406	+2	(428)	-	8,923	+1	(154)	(3)
(including derivative financial instruments)		-2	429	-		-1	155	4
Subordinated notes	(135)	+2	(2)	-	190	+1	(1)	-
		-2	2	-		-1	1	-
Other financial liabilities	(42)	+2	(1)	-	399	+1	(2)	-
		-2	1	-		-1	2	-

The reporting 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 reporting 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 on the balance sheet 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 reporting 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 reporting date would have no impact on either profit or equity from the measurement of these liabilities for the current financial year.

39. Specific disclosures – General Insurance (continued)

39(f) General Insurance risk management (continued)

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.

As this business is no longer being written, the Group established a special investment portfolio to ensure sufficient funds were set aside to accommodate all final settlements. The claim payments will be predominantly in United States dollars. The investment portfolio consists of cash and short-term discount securities with a forward foreign exchange agreement. The details of the forward foreign exchange agreement are contained in note 42(b).

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 2008.

	2009				2008			
	Exposure at Jun-09 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m	Exposure at Jun-08 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m
Euro	-	+10	-	-	28	+10	1	-
		-10	-	-		-10	(1)	-
GBP	-	+10	-	-	(9)	+10	(1)	-
		-10	-	-		-10	1	-
JPY	-	+10	-	-	25	+10	-	-
		-10	-	-		-10	-	-
USD	12	+10	(1)	-	105	+10	(5)	-
		-10	1	-		-10	7	-
Other	-	+10	-	-	30	+10	1	-
		-10	-	-		-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 include equity risk and credit spread risk.

39. Specific disclosures – General Insurance (continued)

39(f) General Insurance risk management (continued)

Market risk (continued)

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. During the current financial year, the General Insurance business reduced its Australian and international equities portfolios and there was no significant exposure at the end of the financial year. In the prior financial year, equity risk was managed by incorporating a diverse holding of leading companies 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 equites at balance date on the Group's General Insurance income statement and balance sheet 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.

	2009				2008			
	Exposure at Jun-09 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m	Exposure at Jun-08 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m
Australian equities	-	+10	-	-	903	+10	64	-
		-10	-	-		-10	(64)	-
International equities	-	+10	-	-	117	+10	8	-
		-10	-	-		-10	(8)	-

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 the controlled use of credit derivatives. Investments are also subject to minimum credit rating criteria. 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.

The Group's General Insurance investment portfolios also contain exposure to the property market. The exposures may be by way of investment in listed property trusts or direct holdings. The main source of risk is the risk of loss from adverse changes in the valuations of these investments. An overall downturn in the property market may impact the future results of the Group. This risk is managed by incorporating a diverse holding of investments and asset classes in the Group's General Insurance investment portfolios.

Given the significant volatility experienced in the market during the last year, the sensitivity of the Group's General Insurance businesses credit exposure has been calculated for a +/- 200 basis point (2008: 100 basis point) change in yield on securities other than semi-government (for which a +/- 60 basis point change has been adopted) as follows:

	2009			2008		
	Exposure at Jun-09 $m	Movement in variable %	Profit (loss) after tax $m	Exposure at Jun-08 $m	Movement in variable %	Profit (loss) after tax $m
Credit exposure (excluding semi government)	5,267	+2.0	(152)	4,529	+1.0	(78)
		-2.0	152		-1.0	78
Credit exposure (semi government)	2,394	+0.6	(20)	2,550	+1.0	(36)
		-0.6	20		-1.0	36

39. Specific disclosures – General Insurance (continued)

39(f) General Insurance risk management (continued)

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. 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
2009					
Bank overdraft	66	66	-	-	66
Amounts due to reinsurers	96	96	-	-	96
Trade creditors and accrued expenses	456	455	-	-	455
Investment settlements	308	308	-	-	308
Interest rate swap and futures - net settled	18	-	1	17	18
Unearned premium liabilities	3,528	3,517	11	-	3,528
Net outstanding claims liabilties	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 receivables	-	(16)	(66)	(308)	(390)
Amounts payable	51	12	81	355	448
	51	(4)	15	47	58
2008					
Amounts due to reinsurers	52	62	-	-	62
Trade creditors and accrued expenses	341	324	17	-	341
Investment settlements	16	16	-	-	16
Interest rate swap and futures - net settled	140	10	62	73	145
Unearned premiums and unexpired risk liabilities	3,263	3,255	3	5	3,263
Net outstanding claims liabilties	5,881	1,894	2,935	1,052	5,881
Interest bearing liabilities	47	7	32	24	63
Subordinated notes	940	22	86	1,007	1,115
Other financial liabilities	285	287	32	24	343
Managed funds units on issue	15	15	-	-	15
	10,980	5,892	3,167	2,185	11,244
Gross settled derivatives					
Amounts receivables	(19)	(16)	(64)	(56)	(136)
Amounts payable	159	26	126	129	281
	140	10	62	73	145

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

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

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

Details of specific actuarial techniques and assumptions used in calculating the outstanding claims liability at reporting 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 year end. There is a significant amount of judgement involved in the estimation process of the fees receivable which are not finalised for a number of years.

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

The statutory authorities allocate the base fee to each authorised agent based on factors such as market share and service capability. The performance fee is allocated to each authorised agent based on performance components set by each statutory authority.

39. Specific disclosures – General Insurance (continued)

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 and sale of compulsory third party insurance in Queensland and New South Wales.

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

Multiple actuarial methods have generally been applied to project future claim payments. This assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes. The most appropriate method or a blend of methods is selected, taking into account the characteristics of the class of business and the extent of the development of each past accident period.

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

Assumptions

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

	2009				2008			
	Personal		Commercial		Personal		Commercial	
	Aust	NZ	Aust	NZ	Aust	NZ	Aust	NZ
Weighted average term to settlement (years)	3.1	0.4	6.0	1.2	3.3	0.4	5.9	1.0
Inflation rate	4.0%	3.0%	4.0%	3.0%	4.4%	3.0%	4.5%	3.0%
Superimposed inflation rate	3.2%	0.1%	4.2%	2.3%	3.1%	0.0%	4.4%	2.0%
Discount rate	5.0%	4.3%	5.4%	3.9%	6.7%	7.3%	6.6%	7.1%
Claims handling expense ratio	5.4%	5.9%	5.8%	7.0%	4.9%	6.8%	6.1%	7.4%
Risk margin	15.1%	11.7%	22.9%	26.5%	14.2%	12.0%	24.8%	28.8%

39. Specific disclosures – General Insurance (continued)

39(h) Actuarial assumptions and methods (continued)

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.

Inflation and superimposed inflation

The inflation assumptions for the outstanding claim liabilities can be considered the sum of economic inflation and superimposed inflation. The former would be typically based on consumer price index and/or increases in average weekly earnings. Superimposed inflation reflects the past tendency for some costs, such as court awards, to increase at levels in excess of economic inflation. Inflation assumptions are set at a class of business level and reflect past experience and future expectations.

Discount rate

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

Claims handling expense ratio

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

Risk margin

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

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall position which is intended to have approximately a 90% probability of sufficiency (2008: 90%).

The overall risk margin applied, allowing for diversification, was 18.1% (2008: 17.8%).

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 performance and equity of the Group. Sensitivity analysis is conducted on each variable, whilst holding all other variables constant. It should be noted that the ranges used for sensitivity analysis that follows do not necessarily represent a reasonable range between which the assumptions may vary. The tables below describe how a change in each assumption will affect the outstanding claims liabilities.

Variable	Impact of movement in variable
Weighted average term to settlement	A decrease in the average term to settlement would imply that claims are being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the weighted average term would have a corresponding decrease or increase on outstanding claims liabilities.
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 increase or decrease on outstanding claims liabilities.
Discount rate	The outstanding claims liability is calculated with reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposite impact on the overall outstanding claims liabilities.
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 increase or decrease on outstanding claims liabilities.
Risk margin	The outstanding claims liability includes a risk margin to allow for the inherent uncertainty in the estimates of future claims cost. An increase or decrease in the percentage risk margin will have a corresponding increase or decrease in the overall outstanding claims liabilities.

Impact of changes in key variables

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

		Financial Impact (1)			
		2009		2008	
	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	(71)	-	(39)	-
	- 0.5	70	-	39	-
Inflation rate	+1%	(178)	-	(170)	-
	-1%	167	-	159	-
Discount rate	+1%	171	-	162	-
	-1%	(186)	-	(175)	-
Claims handling expense ratio	+1%	(46)	-	(54)	-
	-1%	46	-	54	-
Risk margin	+1%	(49)	-	(49)	-
	-1%	49	-	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 2009 $m	Consolidated Life 2008 $m
Revenue		
Premiums received or receivable	1,815	1,981
Premiums recognised as a change in gross policy liabilities	(1,096)	(1,283)
Premium revenue	719	698
Outwards reinsurance premium expense	(181)	(170)
	538	528
Investment (loss) revenue	(692)	(880)
Fees from trust and fiduciary activities	116	151
Other revenue	125	124
	87	(77)
Operating expenses		
Claims paid or payable	(1,940)	(1,943)
Claims recognised as a change in gross policy liabilities	1,503	1,532
Claims expense	(437)	(411)
Reinsurance recoveries revenue	159	146
	(278)	(265)
Policy acquisition expenses		
Commission	(68)	(66)
Other	(46)	(80)
Policy maintenance expenses		
Commission	(45)	(49)
Other	(151)	(141)
Investment management expenses	(30)	(28)
Other operating expenses	(211)	(221)
Decrease in net insurance contract liabilities	415	342
Decrease in net investment contract liabilities	452	514
(Increase) in unvested policy owner benefits	(83)	(74)
Outside beneficial interests in managed funds	70	193
Non-banking interest expense	(13)	(7)
	12	118
Contribution to profit from Life activities before tax and amortisation	99	41

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 Insurance			
	Life Insurance Contracts $m	Investment Linked Contracts $m	Other Life Investment Contracts $m	Total Statutory Funds $m
2009				
Shareholder's operating profit in the statutory funds				
The shareholder's operating profit after tax in the statutory funds is represented by:				
Investment earnings on shareholder's retained profits and capital	8	(1)	-	7
Emergence of shareholder's 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
2008				
Shareholder's operating profit in the statutory funds				
The shareholder's operating profit after tax in the statutory funds is represented by:				
Investment earnings on shareholder's retained profits and capital	2	(2)	-	-
Emergence of shareholder's planned profits	108	-	-	108
Experience profit	10	-	-	10
Reversal of capitalised loss (losses capitalised)	1	-	-	1
Management Services Profit	-	9	(1)	8
	121	7	(1)	127
Cumulative losses carried forward at the end of the financial year	34	-	-	34
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	(4)	-	-	(4)
Emergence of policyowner planned profits	164	-	-	164
Experience profit (loss)	(11)	-	-	(11)
	149	-	-	149

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.

40. Specific disclosures – Life (continued)

40(c) Net policy liabilities (continued)

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 2009. The actuarial report for Suncorp Life & Superannuation Limited was prepared by Mr Rowan Ward, Appointed Actuary BSc FIAA. The actuarial report for Asteron Life Limited (Australia) was prepared by Mr Michael Lubke, Appointed Actuary BSc (Hons) FIAA and Asteron Life Limited (New Zealand) report was prepared by Mr John Smeed, BCom FIA FNZSA, Company Actuary. 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 the policy liabilities to be calculated in a way which allows for the proper and timely release of profits over the life of the business as services are provided to policyowners and premiums are received. For life investment contracts, the Prudential Standards require the policy liabilities to be calculated as the fair value of liabilities in accordance with accounting standards.

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	-
Disability income (4)	Accumulation	-
Lump sum risk (2) (5)	Projection	Expected claim payments
Disability income risk (2) (5)	Projection	Expected claim payments

Notes

(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

40. Specific disclosures – Life (continued)

40(c) Net policy liabilities (continued)

equal to the sum of reserves for incurred but not reported claims, unearned premiums and open disability income claims.

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

Assumption	Basis of assumption	Significant changes since 2008
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 6.9% (2008: 6.6%) to 7.4% (2008: 8.3%). For ALL the investment assumption used for this class of business was 7.8% (2008: 8.0%) and for ALLNZ was 8.0% (2008: 8.2%). All non-participating business uses an investment earnings and discount rate assumption of the risk-free rate. For SLSL this has been determined from the government bond curve and varied (before tax) between 3.0% and 6.0% (2008: 6.4% and 7.0%). For ALL the risk-free rate is derived from the inter-bank bill swap rates of appropriate duration and varied (before tax) between 3.5% and 6.2% (2008: 7.6% and 8.2%). For ALLNZ the risk-free rate is derived from the 10 year inter-bank bill swap rates and is 6.0% (2008: 7.3%).	Changes have been made to the assumed earnings rates by asset class, providing greater consistency between SLSL, ALL and ALLNZ.
Maintenance expenses	Per policy expense rates are based upon expected costs to service existing contracts in the period following the reporting date. Expense rates vary by product line and class of business. Tax deductibility of expenses is allowed for at rates appropriate to the taxation basis of the business.	No change in approach.
Inflation	The inflation assumption is reviewed at each valuation. For this valuation 3.0% (2008: 3.0%) per annum was assumed for Australia and 2.5% (2008: 2.5%) for New Zealand, taking into account the difference between long-term government bonds and indexed government bonds for Australia.	No changes in approach.
Benefit Indexation	Where the increase in future benefits increases in line with inflation, ALL has used an assumption of 2.5% (2008: 2.5%) and SLSL has used 3.0% (2008: 3.0%).	None.
Voluntary discontinuance	Rates are based upon recent internal investigations and industry experience. 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 2.5% and 30% (2008: between 2.5% and 30%) for SLSL and between 1% and 25% (2008: 1% and 25%) for ALL and between 6% and 20% (2008: 6% and 18%) for ALLNZ.	For SLSL, increases for a number of lump sum risk products and investment products, and a decrease for corporate super. For ALL, increases for term and trauma business.
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 76% (2008: 76%) to 180% (2008: 180%). Table IA95-97 was developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997. Asteron: The proportion of IA95-97 before allowance for smoker/non-smoker adjustments for ALL is 62% (2008: 65%) for underwritten business and 98% for direct business (2008: 85%) and for ALLNZ is 95% (2008: 95%).	Reduction for underwritten business and increase for direct business.

40. Specific disclosures – Life (continued)

40(c) Net policy liabilities (continued)

Assumption	Basis of assumption	Significant changes since 2008
Mortality – annuitants	SLSL: Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments, being 55% for males and 65% for females. Tables IM/IF80 were developed by the Institute of Actuaries and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982. Asteron: ALL uses an adjusted IM/IF80 and for ALLNZ annuitant mortality was further adjusted for age-related improvement. Annuitant mortality rates, which vary by age and sex, have been based on industry experience. They are set at 55% (2008: 55%) for ALL and 70% (2008: 72%) for ALLNZ of the IM80 and IF80 mortality tables allowing for future mortality improvement.	None.
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. 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 ALL, reductions assumed for some trauma conditions, but more than offset by an increase assumed in TPD incidence.
Disability – income	Disability rates on income policies have been determined using the IAD89-93 table with adjustments to reflect SLSL's and Asteron's (Australia and New Zealand) experience. IAD89-93 was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993. For New Zealand, these rates were adjusted by factors dependent on New Zealand industry experience, company experience and nature of benefits.	For ALL, the basis has been strengthened (i.e. greater incidence rates and lower recovery rates assumed).
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.	No changes in approach.
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.	No changes in approach.
Future supportable bonuses and interest credits to participating policies	Future bonus rates and interest credits assumed are those supported by the policy liabilities and the assumed future experience, including allowance for the shareholder's right to participate in distributions. Using these rates the net present value of expected future cash flows equals the value of assets supporting the business. For participating whole of life and endowment business, the Group's policy is to set bonus rates such that, over long periods, the returns to 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.	No changes in approach.

40. Specific disclosures – Life (continued)

40(c) Net policy liabilities (continued)

	Consolidated Life Insurance		
	Current basis [4]		Previous basis [5]
	2009	2008	2009
Insurance contract policy liabilities	$m	$m	$m
Best estimate liability			
Value of future policy benefits [1]	4,480	4,253	4,406
Value of future expenses	1,801	1,570	1,850
Value of unrecouped acquisition expenses	(173)	(149)	(173)
Balance of future premiums	(5,801)	(5,084)	(5,827)
	307	590	256
Value of future profits			
Policyowner bonuses [2]	458	980	514
Shareholder profit margins	1,032	967	1,027
	1,490	1,947	1,541
Total value of declared bonuses [3]	16	67	16
Total net policy liabilities	1,813	2,604	1,813
Life insurance reinsurance ceded	311	252	311
Gross insurance contract liabilities	2,124	2,856	2,124
Gross investment contract liabilities at year end	3,423	3,937	3,423
Gross policy liabilities	5,547	6,793	5,547
Policy liabilities subject to capital guarantee	1,465	1,540	1,387

Notes

(1) Future policy benefits include bonuses credited to policyowners in prior periods but exclude current period bonuses (as set out in the 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, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements are met.

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

40. Specific disclosures – Life (continued)

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

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 (2008: nine) unit trusts with a combined total of $2,092 million (2008: $2,660 million) of assets under management. Suncorp Metway Investment Management Limited manages 17 (2008: 14) unit trusts with a combined total of $11,165 million (2008: $12,315 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 15 (2008: 13) unit trusts with a combined total of $808 million (2008: $118 million) of assets under management. Tyndall had funds under management of $2,756 million (2008: $2,800 million). The funds management activities of Tyndall are segregated from the settlement, title and custody of its clients' funds.

Trustee activities

The Group has the following trustee activities:

Suncorp Portfolio Services Limited acts as trustee for the following superannuation funds and pooled superannuation trusts: (i) Suncorp Master Trust incorporating divisions Asteron Life Superannuation Fund, Asteron Superannuation Fund (Wealthsmart), Connelly Temple Public Superannuation Fund, Connelly Temple Public Superannuation Fund, Optimum Superannuation Master Plan, Optimum Professional Superannuation Plan, Suncorp Personal Superannuation Fund, Suncorp Secure Preservation Plan, Suncorp Superplan and Tyndall Superannuation Plan; (ii) Suncorp Easy Super; (iii) Promina Group Staff Superannuation Fund; (iv) Connelly Temple PST; (v) Optimum PST; and (vi) Tyndall PST.

As at 30 June 2009 the funds under administration by Suncorp Portfolio Services Limited was $744 million (2008: $892 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 $3,046 million (2008: $3,536 million) of assets under administration and $47,876 million (2008: $27,502 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 reports as the Group does not control these entities. Assets held under trusteeship as at 30 June 2009 totalled $348 million (2008: $395 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") which was undertaken in September 2008. As at 30 June 2009 the GTFM has mortgage loan investments of $154 million (2008: $42 million). A $128 million drawdown facility with ANZ Bank was in place at 30 June 2009, which was fully utilised (2008: $44 million 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 (2008: $24 million) of the assets of the Asteron Life Limited (New Zealand) Shareholder Fund.

In September 2008 GTFM purchased all of the mortgage loans of GIF5 and the fund was wound up. As at 30 June 2008 GIF5 had mortgage loan investments of $96 million. A $119 million drawdown facility was in place at 30 June 2008, of which $79 million was utilised. Receipts from the mortgage portfolio were used to pay the interest and principal commitments due on the cash advance facility and other administration expenses. The cash advance facility is secured over the assets of the GIF5.

40. Specific disclosures – Life (continued)

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 shareholders' 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(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 2009 in accordance with Professional Standard 5 (PS5) issued by New Zealand Society of Actuaries.

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

	Suncorp Life & Superannuation Limited		Asteron Life Limited (Australia)		Asteron Life Limited (New Zealand)	
	2009 $m	2008 $m	2009 $m	2008 $m	2009 $m	2008 $m
Solvency requirement						
Minimum termination value	3,374	3,903	2,405	2,611	383	434
Gross policy liabilities ceded under reinsurance	84	78	213	163	13	11
Other liabilities	77	167	153	147	53	105
Solvency reserve	201	264	137	149	59	62
Solvency requirement	3,736	4,412	2,908	3,070	508	612
Assets available for solvency reserve						
Surplus or deficit (if any) of net policy liabilities relative to net minimum termination value	(153)	163	(627)	(450)	(145)	(119)
Net assets	309	243	867	734	234	212
Liability for policyowner retained profits at the end of financial year	380	297	4	4	13	14
	536	703	244	288	102	107
Solvency reserve (%)	5.8%	6.5%	5.4%	5.4%	13.5%	11.6%
Coverage of solvency reserve (times)	2.7	2.7	1.8	1.9	1.7	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 reporting date.

40. Specific disclosures – Life (continued)

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. The framework includes for the Life Companies 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 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 Company Boards.

Suncorp Life & Superannuation Limited has a shareholder and two statutory funds, being a Capital Guaranteed Fund and an Investment Linked Fund. Within the Capital Guaranteed Fund there are six sub-funds: Life Capital Guaranteed Funds No's 1 and 4, and Superannuation Capital Guaranteed No's 1, 4, 5 and 21. Within the Investment Linked Fund there are 16 sub-funds. In April 2009, three new sub-funds were established due to the launch of the new Wealthsmart product, being: the Suncorp Cash Fund, the Suncorp Australian Shares Fund and the Suncorp Global Shares Fund. The previously existing funds, being: the Life Capital Stable Fund, the Balanced Life Fund, the Superannuation Stable Fund, the Balanced Superannuation Fund, the MS Cash Pool Fund, the MS Balanced Fund, the MS Capital Stable Fund, the MS High Equity Fund, the Suncorp Metway Australian Equities Superannuation Fund, the Suncorp Metway International Equities Superannuation Fund, the Suncorp Imputation Fund, the Suncorp Metway Bonds Fund and the Suncorp Metway Property Fund remained in existence during the current year. Each of the sub-funds has an investment mandate.

Asteron Life Limited (Australia) has five statutory funds and a shareholder fund. Statutory Funds No's 1, 3 and 5 each have two sub-funds, one being an ordinary and the other being a superannuation sub-fund. Statutory Funds No 1 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 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. 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 (LPS220) 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 Actuaries, in accordance with APRA Prudential Standard LPS 310 (and 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.

40. Specific disclosures – Life (continued)

40(g) Life risk management (continued)

Insurance risk (continued)

Risk management objectives and policies for mitigating insurance risk (continued)

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, not just at the period end.

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 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.

40. Specific disclosures – Life (continued)

40(g) Life risk management (continued)

Insurance risk (continued)

Claims management

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

Concentrations of insurance risk

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

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

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% (2008: 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

<u>Ceding of risk and reinsurance security</u>

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 Insurance 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.

40. Specific disclosures – Life (continued)

40(g) Life risk management (continued)

Credit risk (continued)

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.

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							
	AAA $m	AA $m	A $m	BBB $m	Non investment grade $m	Other Not Rated $m	Investment Linked Business [1] $m	Total $m
2009								
Cash and cash equivalents	-	80	110	-	-	(5)	73	258
Interest bearing financial assets at fair value through profit or loss	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	1,316	1,172	40	7	236	610	4,579
2008								
Cash and cash equivalents	-	142	56	-	-	(6)	52	244
Interest bearing financial assets at fair value through profit or loss	899	809	1,669	83	1	72	393	3,926
Loans, advances and other receivables	15	64	7	3	-	178	40	307
Gross policy liabilities ceded under reinsurance	34	219	-	-	-	-	-	253
Derivative financial instruments	-	-	-	-	-	-	1	1
	948	1,234	1,732	86	1	244	486	4,731

(1) For investment linked business, the liability to policyholders 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 balance sheet represents the maximum amount of credit exposures, except for derivatives. The fair value of derivatives shown on the balance sheet represents the current risk exposure, but not the maximum risk exposure. The face value and fair value of derivatives are illustrated in note 42.

The following table provides information regarding the carrying value of the Group's 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.

40. Specific disclosures – Life (continued)

40(g) Life risk management (continued)

Credit risk (continued)

	Neither past due nor impaired $m	Past due but not impaired 0-3 mths $m	3-6 mths $m	6-12 mths $m	> 12 mths $m	Impaired $m	Total $m
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
2008							
Premiums outstanding	5	14	-	-	-	-	19
Investment revenue receivable	20	-	-	-	-	-	20
Investment settlements	7	-	-	-	-	-	7
Reinsurance recoveries receivable	39	12	2	1	1	-	55
Gross policy liabilities ceded under reinsurance	253	-	-	-	-	-	253
Other	183	-	-	-	-	5	188
	507	26	2	1	1	5	542

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 policyholders 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 are 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 shareholders' 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 year, a movement of 200 basis points (2008: 100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

	2009				2008			
	Exposure at Jun-09 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m	Exposure at Jun-08 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m
Interest bearing investment securities	3,387	+2	(87)	-	4,446	+1	(50)	-
(including derivative financial instruments)		-2	90	-		-1	46	-
Loans, advances and receivables	209	+2	3	-	199	+1	1	-
		-2	(3)	-		-1	(1)	-
Deposits and short-term borrowings	(128)	+2	(2)	-	(123)	+1	1	-
		-2	2	-		-1	(1)	-

Note: after tax impact on profit (loss) uses corporate tax rate of 30%. Actual after tax impact for Life Insurance business may differ.

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

Interest-bearing investment securities are recognised on the balance sheet 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 Trust and Suncorp Investment Management World Equities Trust, enter into forward foreign exchange and future contracts to aim to provide capital appreciation.

40. Specific disclosures – Life (continued)

40(g) Life risk management (continued)

Market risk (continued)

Foreign exchange risk (continued)

The Group's exposure to foreign currency risk in the Life 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 has been performed on the same basis for 2008.

	2009				2008			
	Exposure at Jun-09 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m	Exposure at Jun-08 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m
AUD	12	+10	1	-	18	+10	1	-
		-10	(1)	-		-10	(1)	-
CHF	31	+10	(2)	-	5	+10	(1)	-
		-10	2	-		-10	-	-
Euro	35	+10	(2)	-	35	+10	2	-
		-10	2	-		-10	(2)	-
GBP	21	+10	(1)	-	(30)	+10	(2)	-
		-10	1	-		-10	2	-
HKD	35	+10	(2)	-	16	+10	(1)	-
		-10	3	-		-10	1	-
JPY	18	+10	(1)	-	91	+10	-	-
		-10	2	-		-10	1	-
USD	183	+10	(12)	-	286	+10	(17)	-
		-10	15	-		-10	22	-
Other	35	+10	(2)	-	58	+10	2	-
		-10	3	-		-10	(2)	-

Note: after tax impact on profit (loss) uses corporate tax rate of 30%. Actual after tax impact for Life Insurance business may differ.

Other market risks

In addition to cash and interest-bearing securities, the investment portfolios contain exposures to equity and property markets. The investment mandates while providing higher returns must also consider the volatility of investment returns and the impact of volatility on both the capital adequacy and profitability of the business. In accordance with the accounting policy discussed in note 3(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 current financial year, the Life Insurance 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 equites 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 year, a movement of 25 per cent (2008: 10 per cent) is considered reasonably possible and has been applied to the sensitivity analysis. Where the liability to the investment contract holder is directly linked to the value of the asset held to back that liability there is no residual price risk exposure to the shareholder. Accordingly, investment linked business has not been included in the analysis.

40. Specific disclosures – Life (continued)

40(g) Life risk management (continued)

Market risk (continued)

Other market risks (continued)

	2009				2008			
	Exposure at Jun-09 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m	Exposure at Jun-08 $m	Movement in variable %	Profit (loss) after tax $m	Equity reserves $m
Australian equities	1,511	+25	264	-	2,065	+10	145	-
		-25	(266)	-		-10	(145)	-
International equities	617	+25	112	-	794	+10	56	-
		-25	(112)	-		-10	(56)	-

Note: after tax impact on profit (loss) uses corporate tax rate of 30%. Actual after tax impact for Life Insurance business may differ.

Liquidity risk

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

The investment portfolio mandates require that sufficient cash deposits are available to meet day-to-day obligations. This combined with premiums received 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 Group's 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 $m	1 year or less $m	1 to 5 years $m	Over 5 years $m	No term $m	Investment Linked [1] $m	Total cash flows $m
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	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 policy owner benefits	397	4	-	-	393	-	397
Managed funds units on issue	491	491	-	-	-	-	491
	6,550	1,284	681	733	432	3,420	6,550

Notes

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

40. Specific disclosures – Life (continued)

40(g) Life risk management (continued)

Liquidity risk (continued)

	Carrying amount $m	1 year or less $m	1 to 5 years $m	Over 5 years $m	No term $m	Investment Linked (1) $m	Total cash flows $m
2008							
Amounts due to reinsurers	14	14	-	-	-	-	14
Trade creditors and accrued expenses	176	176	-	-	-	-	176
Investment settlements	20	17	-	-	-	3	20
Interest rate swap and futures - net settled	17	9	4	-	-	4	17
Outstanding claims liabilities	130	95	-	-	35	-	130
Deposits and short-term borrowings	123	123	-	-	-	-	123
Other	5	5	-	-	(2)	2	5
Insurance contract policy liabilities	2,603	328	950	1,325	-	-	2,603
Investment contract policy liabilities	3,938	4	-	-	-	3,934	3,938
Unvested policy owner benefits	314	3	-	-	311	-	314
Managed funds units on issue	807	807	-	-	-	-	807
	8,147	1,581	954	1,325	344	3,943	8,147

Notes

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

40. Specific disclosures – Life (continued)

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 balance sheet and amortised over the period to which the costs provide income.

The amortisation of deferred revenue is an inherently uncertain process, involving assumptions about factors related to the period a policy will be in force. This is largely due to uncertainty surrounding continuance or surrender of particular policies. The deferred revenue is capitalised and separately disclosed as "Payables and other liabilities" in the balance sheet 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)

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

The table below illustrates how changes in key assumptions would impact the current period reported profit and policy liabilities and equity at 30 June 2009 of the Group. The change in liability and profit (loss) are shown net and gross of reinsurance.

Variable	Change [1]	Change in insurance contract liability (net) $m	Change in insurance contract liability (gross) $m	Profit (loss) after tax (net) $m	Profit (loss) after tax (gross) $m
Maintenance expense	+ 10% increase	2	2	(2)	(2)
Mortality and lump sum morbidity	+ 10% increase	-	-	-	-
Morbidity - disability income	+ 10% increase in incidence and decrease in recovery rates	37	98	(37)	(98)
Discontinuance rates	+ 10% increase	-	-	-	-

Notes

(1) Change is an absolute, rather than relative, change.

The table below illustrates the effects of changes in actuarial assumptions from 30 June 2008 to 30 June 2009.

Assumption category	Effect on future profit margins (shareholder) increase (decrease) $m	Effect on policy liabilities increase (decrease) $m
Discount rates (risk business) [1]	-	(51)
Discount rates (participating business)	(16)	-
Mortality and morbidity	2	2
Morbidity income	(16)	-
Lapse and surrender rates	(51)	-
Indexation takeup rate	27	-
Maintenance expenses	43	(4)
Other	23	-

Notes

(1) Effects for risk business is shown gross of tax.

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

41. Financial instruments

Refer note 37 for discussion on the exposure to risks that arise in the normal course of the Group's business. Refer note 42 for specific discussion on derivative financial instruments.

41(a) Fair values

These amounts represent estimates of fair values at a point in time and require assumptions and matters of judgement regarding economic conditions, loss experience, risk characteristics associated with particular financial instruments and other factors. Therefore, they cannot be determined with precision and changes in the assumptions could have a material impact on the amount estimated. Fair values of financial instruments at balance date are as follows:

	Consolidated				Company			
	Carrying value 2009 $m	Fair value 2009 $m	Carrying value 2008 $m	Fair value 2008 $m	Carrying value 2009 $m	Fair value 2009 $m	Carrying value 2008 $m	Fair value 2008 $m
Financial assets								
Cash and cash equivalents	2,356	2,356	1,003	1,003	1,367	1,367	216	216
Receivables due from other banks	118	118	263	263	118	118	263	263
Trading securities	6,694	6,694	5,685	5,685	6,694	6,694	5,685	5,685
Investment securities	20,330	20,330	19,149	19,149	3,933	3,933	1,268	1,268
Loans, advances and other receivables	56,753	57,027	57,343	56,686	52,962	53,175	53,487	51,737
Due from subsidiaries	-	-	-	-	2,866	2,866	6,296	6,296
Other financial assets	285	285	432	432	254	254	341	341
Financial liabilities								
Deposits and short-term borrowings	37,866	37,950	43,147	45,403	37,847	37,930	43,708	45,914
Payables due to other banks	29	29	45	45	29	29	45	45
Bank acceptances	3	3	865	865	3	3	865	865
Payables and other liabilities	2,342	2,342	1,956	1,956	1,255	1,255	934	934
Due to subsidiaries	-	-	-	-	154	154	10,473	10,473
Managed funds units on issue	506	506	813	813	-	-	-	-
Securitisation liabilities	5,711	5,470	6,409	6,409	-	-	-	-
Debt issues	15,661	15,761	6,748	6,741	16,010	16,112	6,748	6,741
Subordinated notes	2,312	2,060	2,638	2,638	1,583	1,566	1,699	1,699
Preference shares	865	781	863	871	865	781	863	871

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. In addition, the value of long-term relationships with depositors and other customers are not reflected. The value of these items is significant, and the aggregate net fair value amount should in no way be construed as representative of the underlying value of the Group.

The following methodologies and assumptions were used to determine the net fair value estimates.

Financial assets

As cash and cash equivalents and receivables due from other banks are short-term in nature or are receivable on demand, their carrying value approximates their net fair value. Investment securities are carried at market value which equates to fair value.

The carrying value of loans, advances and other receivables is net of specific and collective provisions for impairment. For variable rate loans, excluding impaired loans, the carrying amount is considered a reasonable estimate of fair value. The fair value for fixed rate loans was calculated by utilising discounted cash flow models to determine the net present value of the portfolio future principal and interest cash flows, based on the interest rate repricing of the loans. The discount rates applied were based on the rates offered by the Banking entities on current products with similar maturity dates.

For all other financial assets, the carrying value is considered to be a reasonable estimate of fair value.

41. Financial instruments (continued)

41(a) Fair values (continued)

Financial liabilities

The carrying value at balance date of non-interest-bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, is the 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 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 balance sheet.

Banking activities

The Bank seeks to minimise volatility in its net interest income through use of interest rate derivatives, primarily vanilla interest rate swaps. The swaps are managed over a three year period which is approximately the average loan life.

At balance date, the Bank had two (2008: two) swaps designated as a fair value hedge of a fixed rate subordinated note issue. All other interest rate swaps designated as hedges were cash flow hedges. The swaps designated as cash flow hedges are hedges of either variable rate mortgages or variable rate short-term debt.

General Insurance activities

At balance date the General Insurance entities have interest rate swaps designated as a hedge and classified as fair value hedges of fixed rate subordinated 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 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.

41. Financial instruments (continued)

41(b) Hedging (continued)

Hedging of fluctuations in foreign currency rates (continued)

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 2009 was $49 million (30 June 2008: $77 million).

	Consolidated				Company			
	2009		2008		2009		2008	
	Fair Value Hedges $m	Cash Flow Hedges $m	Fair Value Hedges $m	Cash Flow Hedges $m	Fair Value Hedges $m	Cash Flow Hedges $m	Fair Value Hedges $m	Cash Flow Hedges $m
Hedging of fluctuations in interest rates								
Notional value of interest rate swaps designated as hedges	435	18,653	435	17,025	200	18,653	200	17,025
Fair value:								
net receive interest rate swaps	12	163	-	261	8	163	-	261
net pay interest rate swaps	-	(459)	(30)	(40)	-	(459)	(9)	(40)
	12	(296)	(30)	221	8	(296)	(9)	221

	Consolidated Split Approach 2009 $m	Consolidated Split Approach 2008 $m	Company Split Approach 2009 $m	Company Split Approach 2008 $m
Hedging of fluctuations in foreign exchange rates				
Notional value of cross currency swaps designated as hedges	14,156	6,813	12,358	4,851
Fair value:				
net receive cross currency swaps	119	28	62	28
net pay cross currency swaps	(860)	(615)	(793)	(470)
	(741)	(587)	(731)	(442)

	$m	$m	$m	$m
Cashflow hedges - amounts recognised in equity				
Balance at the beginning of the financial year	(120)	(64)	(124)	(67)
Amount removed from equity and included in profit or loss for the year (1)				
cash flow interest rate swap hedges	44	11	44	10
Cumulative gains and losses deferred to equity for current hedges				
cash flow interest rate swap hedges	487	(93)	496	(93)
split approach across cross currency swap hedges	-	(2)	-	(2)
Income tax impact on cashflow hedges	(157)	28	(157)	28
Balance at the end of the financial year included in equity	254	(120)	259	(124)

Notes

(1) Included within 'net profits on derivative and other financial instruments' on the income statement.

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 $m	1 to 5 years $m	Over 5 years $m	Total expected cash flows $m	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total expected cash flows $m
2009								
Forecast receivable cashflows	719	877	-	1,596	719	877	-	1,596
Forecast payable cashflows	(842)	(1,031)	-	(1,873)	(842)	(1,031)	-	(1,873)
	(123)	(154)	-	(277)	(123)	(154)	-	(277)
2008								
Forecast receivable cashflows	1,156	1,247	1	2,404	1,156	1,247	1	2,404
Forecast payable cashflows	(1,038)	(1,162)	(1)	(2,201)	(1,038)	(1,162)	(1)	(2,201)
	118	85	-	203	118	85	-	203

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 2009 there was no significant counterparty exposure to any one single entity, other than normal clearing house exposures associated with dealings through recognised exchanges.

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

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

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

The face values and fair values of the Group's and the Company's derivative financial instruments at balance date are as follows:

	Consolidated					
	2009			2008		
	Face value	Fair value		Face value	Fair value	
		Asset	Liability		Asset	Liability
	$m	$m	$m	$m	$m	$m
Exchange rate related contracts						
Forward foreign exchange contracts	8,155	166	(213)	10,854	100	(169)
Cross currency swaps	14,156	119	(860)	6,813	28	(615)
Currency options	44	3	(3)	142	7	(7)
	22,355	288	(1,076)	17,809	135	(791)
Interest rate related contracts						
Forward rate agreements	2,800	-	-	2,550	-	-
Interest rate swaps	61,672	253	(477)	46,818	341	(112)
Interest rate futures	3,438	10	(1)	4,711	55	(2)
Interest rate options	1,296	1	(1)	1,210	1	(1)
	69,206	264	(479)	55,289	397	(115)
Equity contracts						
Equity futures	84	-	(1)	353	-	(13)
	84	-	(1)	353	-	(13)
Credit contracts						
Credit default swaps	-	-	-	112	-	(2)
	-	-	-	112	-	(2)
Total derivative exposures	91,645	552	(1,556)	73,563	532	(921)

42. Derivative financial instruments (continued)

	Company					
	2009			2008		
	Face value	Fair value		Face value	Fair value	
		Asset	Liability		Asset	Liability
	$m	$m	$m	$m	$m	$m
Exchange rate related contracts						
Forward foreign exchange contracts	7,907	164	(213)	10,142	90	(163)
Cross currency swaps	12,358	62	(793)	4,851	28	(470)
Currency options	44	3	(3)	142	7	(7)
	20,309	229	(1,009)	15,135	125	(640)
Interest rate related contracts						
Forward rate agreements	2,800	-	-	2,550	-	-
Interest rate swaps	57,602	182	(457)	44,195	340	(56)
Interest rate futures	2,484	9	-	1,582	-	-
Interest rate options	1,287	1	(1)	1,200	1	(1)
	64,173	192	(458)	49,527	341	(57)
Total derivative exposures	84,482	421	(1,467)	64,662	466	(697)

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

42. Derivative financial instruments (continued)

42(b) Insurance activities (continued)

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 and Poor's rating of "A" or the equivalent credit rating by another recognised credit rating agency.

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

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

Derivative financial instruments are investments backing insurance liabilities and are measured at fair value. Changes in fair value are reflected daily in the profit and loss.

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. At 30 June 2009, the value of funds under management was $5,925 million (2008: $6,108 million), value of funds under supervision was $48,223 million (2008: $27,897 million) and value of funds under administration was $3,046 million (2008: $3,536 million). The value of funds under management does not include funds invested by subsidiaries of the Group, including the life insurance and general insurance companies.

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 balance sheet 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. Commitments (continued)

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	
	2009 $m	2008 $m	2009 $m	2008 $m
Notional amounts				
Guarantees entered into in the normal course of business	349	353	346	353
Commitments to provide loans and advances	7,389	9,790	7,395	9,886
	7,738	10,143	7,741	10,239
Credit equivalent amounts				
Guarantees entered into in the normal course of business	210	193	207	193
Commitments to provide loans and advances	2,105	3,190	2,104	2,939
	2,315	3,383	2,311	3,132

44(b) Operating lease commitments

	Consolidated		Company	
	2009 $m	2008 $m	2009 $m	2008 $m
Aggregate future operating lease rentals contracted for but not provided in the financial statements are payable as follows:				
Less than one year	149	137	80	70
Between one and five years	401	356	223	196
More than five years	163	139	92	95
	713	632	395	361
Representing:				
Non-cancellable operating leases	713	632	395	361
	713	632	395	361

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.

44. Commitments (continued)

44(c) Finance lease receivables

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Gross investment in finance lease receivables:				
Less than one year	116	141	1	3
Between one and five years	172	260	-	-
More than five years	4	6	-	-
	292	407	1	3
Unearned future income on finance leases	(35)	(53)	-	-
Net investment in finance lease receivables	257	354	1	3

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Net investment in finance lease receivables:				
Less than one year	112	136	1	3
Between one and five years	143	214	-	-
More than five years	2	4	-	-
	257	354	1	3

44(d) Expenditure commitments

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Expenditure for the acquisition of plant and equipment contracted for but not provided in the financial statements is payable as follows:				
Less than one year	51	8	-	-
	51	8	-	-

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 due to the Buyer of Last Resort ("BOLR") clauses in certain advisor contracts. For the BOLR to be exercised, the following key conditions should be met by the advisor:(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 6 months or more. The maximum potential commitments (all BOLR's exercised at once) would be $35 million (2008: $38 million). No BOLR clauses have been exercised at 30 June 2009 (2008: 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 2009 was $42 million (2008: nil), and a provision for $3 million (2008: nil) has been recognised at 30 June 2009 to cover indemnified losses within GIF 2 based on information available at 30 June 2009.

46. Consolidated entities

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 2009 %	Equity Holding 2008 %
Australian Banking entities				
APOLLO Series 2002-1 Trust	Units	Australia	100	100
APOLLO Series 2002-2 Trust	Units	Australia	100	100
APOLLO Series 2003-1E Trust	Units	Australia	100	100
APOLLO Series 2003-2 Trust	Units	Australia	100	100
APOLLO Series 2004-1E Trust	Units	Australia	100	100
APOLLO Series 2004-2 Trust	Units	Australia	100	100
APOLLO Series 2005-1E Trust	Units	Australia	100	100
APOLLO Series 2005-2 Trust	Units	Australia	100	100
APOLLO Series 2006-1E Trust	Units	Australia	100	100
APOLLO Series 2007-1E Trust	Units	Australia	100	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	-
APOLLO Series 2008-3 Trust	Units	Australia	100	-
APOLLO Series 2008-4 Trust	Units	Australia	100	-
Suncorp Corporate Services Pty Ltd (formerly Excelle Pty Ltd) (15)	Ordinary	Australia	100	100
Graham & Company Limited (8)	Ordinary	Australia	100	100
SME Management Pty Limited	Ordinary	Australia	100	100
Suncorp Property Development Equity Fund #2 Unit Trust	Units	Australia	100	100
Polaris Data Centre Unit Trust	Units	Australia	100	100
Suncorp Finance Pty Limited and its subsidiary	Ordinary	Australia	100	100
Medical & Commercial Finance Corporation Pty Limited	Ordinary	Australia	100	100
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	100	100
Suncorp Metway Staff Pty Ltd	Ordinary	Australia	100	100
Suncorp Metway Executive Performance Share Plan Trust	Units	Australia	100	100
Australian General Insurance entities				
Vero Insurance Limited (14) and its subsidiaries	Ordinary	Australia	100	100
AMY Corporation Pty Limited (formerly AMY Corporation Limited) and its subsidiary (12)	Ordinary	Australia	100	100
Just Car Insurance Agency Pty Limited	Ordinary	Australia	100	100
APUA Pty Limited	Ordinary	Australia	100	100
Australian Alliance Insurance Company Limited and its subsidiaries	Ordinary	Australia	100	100
Australian Pensioners Insurance Agency Pty Limited	Ordinary	Australia	100	100
InsureMyRide Pty Limited	Ordinary	Australia	100	100
Shannons Limited	Ordinary	Australia	100	100
Shannons Auctions Limited	Ordinary	Australia	100	100
Australian Associated Motor Insurers Limited and its subsidiaries	Ordinary	Australia	100	100
ABBi Pty Limited	Ordinary	Australia	100	100
AAMI Superannuation Limited	Ordinary	Australia	100	100
Bingle.com Pty Limited	Ordinary	Australia	100	100
Skilled Drivers of Australia Limited (10)	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
Aviation Office of Australia Pty Limited	Ordinary	Australia	100	100
GIO Insurance Investment Holdings A Pty Limited	Ordinary	Australia	100	100

46. Consolidated entities (continued)

46(b) Significant subsidiaries of Suncorp-Metway Ltd (continued)

Subsidiaries	Class of shares	Country of Incorporation	Equity Holding 2009 %	Equity Holding 2008 %
Australian General Insurance entities (continued)				
National Marine Insurance Agency Pty Limited (formerly National Marine Insurance Agency Limited) [13]	Ordinary	Australia	100	100
Promequity Limited [9]	Ordinary	Australia	100	100
Secure Sentinel Pty Limited and its subsidiary [17]	Ordinary	Australia	-	100
Secure Sentinel (NZ) Limited	Ordinary	New Zealand	-	100
Suncorp Insurance Funding 2007 Limited	Ordinary	Australia	100	100
Suncorp Metway Insurance Ltd [5] [7] [8] and its subsidiaries	Ordinary	Australia	100	100
GIO General Limited [5]-[7] and its subsidiaries	Ordinary	Australia	100	100
GIO Australia Pty Limited (formerly GIO Australia Limited) [13]	Ordinary	Australia	100	100
GIO Workers Compensation (Victoria) Limited	Ordinary	Australia	100	100
Suncorp Metway Risk Management Pte Ltd [16]	Ordinary	Singapore	100	100
Suncorp Property Development Equity Fund	Units	Australia	100	100
The Park Road Property Trust [8]	Units	Australia	87	76
Terri Scheer Insurance Pty Ltd	Ordinary	Australia	100	100
Tyndall Quality Income Fund [14]	Units	Australia	100	100
Wiwaka Holdings Pty Limited	Ordinary	Australia	100	100
Australian Life entities				
Suncorp Life & Superannuation Limited and its subsidiaries [3]-[7]	Ordinary	Australia	100	100
Suncorp Financial Services Pty Ltd	Ordinary	Australia	100	100
Suncorp Investment Management Australian Cash Trust [3]	Units	Australia	97	94
Suncorp Investment Management Australian Equities Trust [4]	Units	Australia	86	83
Suncorp Investment Management Australian Fixed Interest Trust	Units	Australia	87	92
Suncorp Investment Management Global Macro Tactical Asset Allocation Trust [5]	Units	Australia	89	96
Suncorp Investment Management Property Securities Trust [6]	Units	Australia	71	81
Suncorp Investment Management World Equities Trust [7]	Units	Australia	80	76
Suncorp Investment Management World Fixed Interest Trust and its subsidiary	Units	Australia	95	94
Suncorp Investment Management Mortgage Backed Trust	Units	Australia	92	97
Suncorp Investment Management Imputation Trust	Units	Australia	53	55
Suncorp Metway Investment Management Limited and its subsidiary	Ordinary	Australia	100	100
SUNCORP Custodian Services Pty Ltd	Ordinary	Australia	100	100
Asteron Limited and its subsidiaries	Ordinary	Australia	100	100
Camwal Limited	Ordinary	Australia	100	100
Asteron Life Limited [7] [14] and its subsidiaries	Ordinary	Australia	100	100
	Preference	Australia	100	100
Tyndall Australian Core Share Fund	Units	Australia	100	100
Tyndall Australian Bond Fund	Units	Australia	92	92
Tyndall International Bond Fund	Units	Australia	96	98
Tyndall Diversified Bond Fund	Units	Australia	99	100
Tyndall Australian Share Income Fund	Units	Australia	94	-
Suncorp Portfolio Services Limited	Ordinary	Australia	100	100
	Preference	Australia	100	100
Financial Services Training and Assessment Pty Limited	Ordinary	Australia	100	100
Guardianfp Limited	Ordinary	Australia	100	100
Prophet Financial Advice Pty Ltd	Ordinary	Australia	100	100
Standard Pacific Financial Services (NSW) Limited and its subsidiaries	Ordinary	Australia	100	100
Standard Pacific Consulting Limited	Ordinary	Australia	100	100
Standard Pacific Accounting Pty Limited	Ordinary	Australia	100	100
Tasman Asset Management Limited	Ordinary	Australia	100	100
Tasman Risk Management Pty Limited	Ordinary	Australia	100	100

46. Consolidated entities (continued)

46(b) Significant subsidiaries of Suncorp-Metway Ltd (continued)

Subsidiaries	Class of shares	Country of Incorporation	Equity Holding 2009 %	Equity Holding 2008 %
Australian Other entities				
Hooker Corporation Limited and its subsidiaries	Ordinary	Australia	100	100
LJ Hooker Limited	Ordinary	Australia	100	100
LJ Hooker Group Limited	Ordinary	New Zealand	100	100
Property Training Solutions Limited (formerly Challenge Realty Group Limited)	Ordinary	New Zealand	100	100
Suncorp Group Holdings Pty Ltd	Ordinary	Australia	100	100
Suncorp Insurance Holdings Limited and its subsidiary	Ordinary	Australia	100	100
Promgroup Limited and its subsidiary (9)	Ordinary	Australia	100	100
Tyndall Investment Management Limited and its subsidiary	Ordinary	Australia	100	100
Tyndall Equities Australia Pty Limited (11)	“A” Class Ord	Australia	100	100
New Zealand entities				
Suncorp Group Holdings (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
Northcroft Plaza Limited (16)	Ordinary	New Zealand	-	100
SAL Re Limited	Ordinary	New Zealand	100	100
Suncorp Group Services NZ Limited	Ordinary	New Zealand	100	100
The New Zealand Guardian Trust Company Limited and its subsidiaries	Ordinary	New Zealand	100	100
Guardian Trust Registery Services Limited	Ordinary	New Zealand	100	100
Guardian Trust Superannuation Trustees Limited	Ordinary	New Zealand	100	100
NZGT Wholesale Mortgage Fund (GIF5)	Units	New Zealand	-	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
Vero Insurance New Zealand Limited and its subsidiaries	Ordinary	New Zealand	100	100
AA Insurance Limited	Ordinary	New Zealand	68	68
Axiom Risk & Insurance Management Limited (16)	Ordinary	New Zealand	-	100
Comprehensive Travel Insurance (2004) Limited	Ordinary	New Zealand	72	72
Fusion Insurance Services Limited	Ordinary	New Zealand	50	50
Vero Liability Insurance Limited	Ordinary	New Zealand	100	100

46. Consolidated entities (continued)

46(b) Significant subsidiaries of Suncorp-Metway Ltd (continued)

Notes

(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 Life & Superannuation Limited holds a 97% (2008: 84% interest) and Suncorp Metway Insurance Ltd holds a 0% (2008: 10%) interest in the Suncorp Investment Management Australian Cash Trust.
(4) Suncorp Life & Superannuation Limited holds a 86% (2008: 83%) interest in the Suncorp Investment Management Australian Equities Trust.
(5) Suncorp Life & Superannuation Limited holds a 89% (2008: 66%) interest, GIO General Limited holds a 0% (2008: 14%) interest and Suncorp Metway Insurance Ltd holds a 0% (2008: 16%) interest in the Suncorp Investment Management Global Macro Tactical Asset Allocation Trust.
(6) Suncorp Life & Superannuation Limited holds a 71% (2008: 71%) interest and GIO General Limited holds a 0% (2008: 10%) interest in the Suncorp Investment Management Property Securities Trust.
(7) Suncorp Life & Superannuation Limited holds a 68% (2008: 61%) interest, GIO General Limited holds a 0% (2008: 7%) interest, Suncorp Metway Insurance Ltd holds a 0% (2008: 8%) interest and Asteron Life Limited holds a 12% interest (2008: 0%) in the Suncorp Investment Management World Equities Trust.
(8) Suncorp Metway Insurance Ltd holds a 47% (2008: 47%) interest and Graham & Company Limited holds a 40% (2008: 29%) interest in The Park Road Property Trust.
(9) Also registered as an overseas company in New Zealand.
(10) 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.
(11) 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.
(12) This company converted from being a public company limited by shares to a proprietary company limited by shares on 20 February 2009.
(13) These companies converted from being a public company limited by shares to a proprietary company limited by shares on 30 April 2009.
(14) Vero Insurance Limited holds a 83% (2008: 100%) interest and Asteron Life Limited holds a 17% (2008: 0%) interest in the Tyndall Quality Income Fund.
(15) Name changed on 16 July 2009.
(16) Companies in liquidation at 30 June 2009.
(17) Companies sold on 29 May 2009.

47. Notes to the statements of cash flows

47(a) Reconciliation of cash flows from operating activities

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Profit for the year	353	588	843	772
Classified as investing activities				
Income tax paid - investing activities	74	358	-	-
Non-cash items				
Write off for liability adequacy test deficiency	19	-	-	-
Amortisation of share-based payments	23	13	21	10
Write off of software	18	-	-	-
Change in fair value of trading securities	10	(75)	59	-
Change in fair value of investments	933	2,103	1	-
Change in fair value of investment property	12	(52)	-	-
Change in the fair value of assets held for sale	11	-	-	-
Impairment loss on joint ventures	19	13	-	-
Impairment losses on loans and advances	710	71	688	63
Net profits on financial liabilities at amortised cost	(145)	-	(89)	-
Depreciation / amortisation of property, plant and equipment and intangible assets	391	474	2	-
Loss on disposal of subsidiary	-	2	-	-
Profit on disposal of asociates and joint ventures	(4)	-	-	-
Loss on disposal of property, plant and equipment	3	7	-	-
Share of net loss (profit) of joint ventures and associates accounted for using the equity method	3	(11)	-	-
Change in assets and liabilities				
Gross up of GST on lease instalments included in operating payments	9	24	11	24
Net movement in tax balances	(85)	(440)	(89)	(40)
Increase in accrued interest receivable	27	(44)	25	(42)
(Increase) in prepayments and deferred expenses	(75)	(245)	-	-
(Increase) in trading securities	(1,019)	(1,319)	(1,068)	(1,394)
Decrease (increase) in loans, advances and other receivables	79	(9,941)	(174)	(10,120)
(Increase) decrease in receivables and other financial assets	(337)	120	145	(140)
(Decrease) increase in deposits and short-term borrowings	(5,260)	12,321	(5,688)	13,005
Increase (decrease) in sundry creditors and accrued expenses	20	(619)	60	79
Increase (decrease) in outstanding claims liabilities	366	(129)	-	-
Increase in unearned premiums and unexpired risk liabilities	265	83	-	-
(Decrease) in gross policy liabilities	(1,246)	(1,193)	-	-
Increase in unvested policy owner benefits	83	72	-	-
Net cash from operating activities	(4,743)	2,181	(5,253)	2,217

47(b) Financing arrangements

	Consolidated 2009 Programme Limit $m	Consolidated 2009 Unused $m	Consolidated 2008 Programme Limit $m	Consolidated 2008 Unused $m	Company 2009 Programme Limit $m	Company 2009 Unused $m	Company 2008 Programme Limit $m	Company 2008 Unused $m
Unrestricted access was available at balance date to the following:								
Overdraft limit	30	30	35	35	-	-	5	5
The Group had the following debt programmes (1) outstanding at year end:								
USD $15 billion programme	18,487	10,373	15,560	5,836	18,487	10,373	15,560	5,836
USD $5 billion programme	6,162	6,162	5,187	4,819	6,162	6,162	5,187	4,819
Japanese Yen bond programme	172	-	-	-	172	-	-	-
US144a MTN programme	18,487	11,825	-	-	18,487	11,825	-	-
AUD TCD programme	4,353	-	2,249	-	4,353	-	2,249	-
	47,661	28,360	22,996	10,655	47,661	28,360	22,996	10,655

Notes

(1) The Group also has access to a $62 million intraday credit accommodation facility.

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):

Roger Bell	Group Executive Vero New Zealand	
Robert Belleville	Group Executive Personal Insurance	Retired 29 November 2008
Mark Blucher	Group Executive Integration	
David Foster	Group Executive Banking (previously Group Executive Retail Banking)	
Andrew Harmer	Chief Risk Officer (acting)	Appointed 16 April 2009
Clayton Herbert	Chief Financial Officer (acting)	Appointed 2 March 2009
Bernadette Inglis	Group Executive Personal Insurance (previously Group Executive Strategy, People and Corporate Services)	
Stuart McDonald	Group Executive Strategy, People and Corporate Services (previously Group Executive Business Banking)	
Mark Milliner	Group Executive Commercial Insurance	
John Mulcahy	Chief Executive Officer	Resigned 2 March 2009
Christopher Skilton	Chief Executive Officer (acting) (previously Chief Financial Officer)	
Jeff Smith	Group Executive Business Technology	
Geoffrey Summerhayes	Group Executive Life	Appointed 26 May 2008

Apart from Mr Summerhayes, Mr Harmer and Mr Herbert who were appointed on the dates indicated above, these executives held their positions as KMP for the duration of the previous financial year.

On 1 July 2009 it was announced that Mr Patrick Snowball would commence as Chief Executive Officer from 1 September 2009. On 17 July 2009 it was announced that Mr Blucher would leave the Group on 31 August 2009.

In conjunction with the Board of Directors, these executives constitute the key management personnel ("KMP") of the Company. These executives are also included as the executives (other than Executive directors) who received the highest remuneration for the year in accordance with S300A of the *Corporations Act 2001*. There are no other executives employed within the Group that are considered to be Group key management personnel. Any executive who has received higher remuneration than some of the executives that constitute 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:

John D Story (Chairman)
John F Mulcahy (Managing Director) (resigned 2 March 2009)
William J Bartlett
Dr Ian D Blackburne
Paula J Dwyer
Dr Cherrell Hirst AO
Martin D E Kriewaldt
Ewoud J Kulk
Geoffrey T Ricketts
Christopher Skilton (appointed Chief Executive Officer (acting) 2 March 2009)
Dr Zygmunt E Switkowski
Leo E Tutt

48. Key management personnel disclosures (continued)

48(b) Key management personnel compensation

The key management personnel compensation included in 'Staff expenses' (refer note 7) are as follows:

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
Short-term employee benefits	11,203,105	18,309,773	11,203,105	18,309,773
Long-term employee benefits	-	314,940	-	314,940
Post employment benefits	873,202	814,333	873,202	814,333
Equity compensation benefits	9,988,117	7,182,809	9,988,117	7,182,809
Termination benefits	3,470,454	1,050,000	3,470,454	1,050,000
	25,534,878	27,671,855	25,534,878	27,671,855

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, Chief Risk Officer (acting).

48(c) Individual directors and executives 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(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 in the reporting period, are as follows:

	Balance 1 July 2008 $	Balance 30 June 2009 $	Interest charged $	Highest balance in year $	Balance 1 July 2007 $	Balance 30 June 2008 $	Interest charged $	Highest balance in year $
Directors								
J Mulcahy	1,213,597	n/a	34,373	1,213,597	1,249,091	1,213,597	74,332	1,247,650
L Tutt	595,122	597,227	40,978	600,192	394,139	595,122	42,381	599,336
Executives								
M Blucher	989,851	547,315	63,463	1,002,073	985,498	989,851	79,353	1,002,528
C Herbert (1)	n/a	483,168	11,196	488,214	n/a	n/a	n/a	n/a
S McDonald	1,018,162	922,876	64,394	1,083,996	1,313,969	1,018,162	78,720	1,313,969
M Milliner	674,935	718,949	47,163	1,312,227	1,116,253	674,935	76,739	1,560,927
J Smith	2,657,806	2,638,625	218,232	2,663,340	-	2,657,806	54,449	2,657,806

Notes

(1) Clayton Herbert was appointed as Acting Chief Financial Officer on 2 March 2009. Interest charged in above table is from 2 March 2009.

New loan facilities totalling $nil (2008: $3.3 million) were made to key management personnel and their related parties during the year.

48. Key management personnel disclosures (continued)

48(d) Loans to key management personnel and their related parties (continued)

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 2009	5,340,753	5,310,933	404,448	5
Total for key management personnel 2008	3,415,720	5,340,753	289,261	4
Total for other related parties 2009	1,808,719	597,227	75,351	2
Total for other related parties 2008	1,643,230	1,808,719	116,713	2
Total for key management personnel and their related parties 2009	7,149,472	5,908,160	479,799	7
Total for key management personnel and their related parties 2008	5,058,950	7,149,472	405,974	6

The loans to executives are secured housing loans and asset lines provided in the ordinary course of the Banking business. All loans have normal commercial terms, which may include staff discounts at the same terms available to all employees of the Group. The loans may have offset facilities, in which case the interest charged is after the offset. No amounts have been written down or recorded as provisions, as the balances are considered fully collectable.

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 Martin D E Kriewaldt provided advice to AON Holdings Australia Limited and Allens Arthur Robinson Lawyers throughout the year. Those firms provided insurance brokerage and legal services respectively to the Group. These services are provided under normal terms and conditions.

Mr Geoffrey T Ricketts is a director 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 $380,159 (2008: $608,573). 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 2009, Mr Kulk holds 211,372 units (2008: 211,372 units) in Tyndall Australian 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 Andrew Harmer is on secondment from Ernst & Young and is filling the role of acting Chief Risk Officer until a permanent incumbent is appointed by the Board. The applicable 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 [(1)]:

2009	Balance 1 July 2008	Received as compensation [(2)]	Purchases (Sales)	Other changes	Balance 30 June 2009
Ordinary Shares					
Directors					
Executive directors					
J F Mulcahy [(3)]	979,142	22,739	-	(1,001,881)	n/a
C Skilton	278,405	98,881	52,633	21	429,940
Non-executive directors					
J D Story	99,817	14,231	20,832	-	134,880
W J Bartlett	16,640	-	3,328	-	19,968
Dr I D Blackburne	30,534	-	6,106	-	36,640
P J Dwyer	15,000	-	3,000	-	18,000
Dr C Hirst AO	13,628	10,673	3,377	-	27,678
M D E Kriewaldt	56,939	-	8,473	(20,369)	45,043
E J Kulk	6,812	-	13,361	-	20,173
G T Ricketts	16,684	-	5,080	-	21,764
Dr Z E Switkowski	51,333	-	10,266	-	61,599
L E Tutt	46,739	-	14,230	-	60,969
Executives					
R Bell	140,552	64,272	-	-	204,824
R Belleville	174,527	79,104	3,777	-	257,408
M Blucher	390,770	79,104	-	-	469,874
D Foster	82,165	64,272	-	-	146,437
A Harmer	-	-	-	-	-
C Herbert [(4)]	-	-	4,835	59,866	64,701
B Inglis	167,277	79,104	(10,000)	-	236,381
S McDonald	124,917	69,216	38,767	-	232,900
M Milliner	127,771	69,216	7,015	-	204,002
J Smith	63,431	74,160	84,548	-	222,139
G Summerhayes	-	61,800	-	-	61,800

Notes

(1) The number of shares disclosed for executive directors and executives may include shares held by the trustee of the Executive Performance Share Plan (EPSP) and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles. In regard to the 429,940 (2008: 278,405) shares attributed to Mr Skilton, 189,135 (2008: 132,054) 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 (2008: 388,744). The remuneration disclosure includes the fair value of the shares allocated over the vesting period. For non-executive directors, includes shares acquired under the Non-Executive Directors Share Plan and funded by pre-tax remuneration.

(3) Mr 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 Herbert was appointed during the period. Shares held upon appointment are shown in 'Other Changes'.

48. Key management personnel disclosures (continued)

48(f) Movement in shares (continued)

2008	Balance 1 July 2007	Received as compensation (2)	Purchases (Sales)	Other changes	Balance 30 June 2008
Ordinary Shares					
Directors					
Executive directors					
J F Mulcahy	861,122	118,020	-	-	979,142
C Skilton	381,067	43,590	(146,252)	-	278,405
Non-executive directors					
J D Story	92,895	6,922	-	-	99,817
W J Bartlett	16,640	-	-	-	16,640
Dr I D Blackburne	27,534	-	3,000	-	30,534
P J Dwyer	15,000	-	-	-	15,000
Dr C Hirst AO	9,571	4,057	-	-	13,628
M D E Kriewaldt	56,065	-	874	-	56,939
E J Kulk	6,812	-	-	-	6,812
G T Ricketts	15,598	-	1,086	-	16,684
Dr Z E Switkowski	11,333	-	40,000	-	51,333
L E Tutt	43,695		3,044	-	46,739
Executives					
R Bell	107,812	32,740	-	-	140,552
R Belleville	133,983	40,296	248	-	174,527
M Blucher	323,778	40,296	26,696	-	390,770
D Foster	49,425	32,740	-	-	82,165
D Fox	75,929	35,259	-	-	111,188
B Inglis	126,981	40,296	-	-	167,277
S McDonald	85,311	35,259	4,347	-	124,917
M Milliner	68,209	35,259	24,303	-	127,771
J Smith	-	37,777	25,654	-	63,431
G Summerhayes	-	-	-	-	-

Notes

(1) The number of shares disclosed for executive directors and executives may include shares held by the trustee of the Executive Performance Share Plan (EPSP) and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles. In regard to the 979,142 shares attributed to Mr Mulcahy, 531,222 shares remain subject to service or performance hurdles and of the 278,405 shares attributed to Mr Skilton, 132,054 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. 388,744 shares vested during the 2008 financial year. The remuneration disclosure includes the fair value of the shares allocated over the vesting period. For non-executive directors, includes shares acquired under the Non-Executive Directors Share Plan and funded by pre-tax remuneration.

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 2008	Received as compensation	Purchases (Sales)	Other changes	Balance 30 Jun 2009	Balance 1 July 2007	Received as compensation	Purchases (Sales)	Other changes	Balance 30 June 2008
Directors										
Dr C Hirst AO	100	-	-	-	100	-	-	100	-	100
Executives										
D Foster	90	-	-	-	90	-	-	90	-	90

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.

Certain subsidiaries have entered into repurchase agreements with the Company. Securities sold under agreements to repurchase at a fixed price are retained on the subsidiaries' balance sheet as the subsidiaries retain substantially all the risks and rewards of ownership. The subsidiaries recognise a liability to record the obligation to the Company for the amount of the cash collateral deposited with the subsidiaries.

Transactions with members of the Group have been included in the profit before tax in notes 6 and 7.

	Company	
	2009	2008
	$000	$000
Current amounts receivable (unsecured)		
Current amounts receivable from subsidiaries	2,865,625	6,295,752
Loans receivable from subsidiaries	3,359	346,666
	2,868,984	6,642,418
Current amounts payable (unsecured)		
Current amounts payable to subsidiaries	7,194,520	10,472,518
Deposits and short-term borrowings from subsidiaries	408,296	1,332,392
Debt issues	338,608	-
Loans payable to subidiaries	15,984	-
	7,957,408	11,804,910

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.

49. Other related party disclosures (continued)

49(c) Other related party transactions with associates and joint venture entities (continued)

	Consolidated	
	2009 $000	2008 $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	-	15,579
Joint venture entities	35,140	37,214
Other expenses paid or due and payable		
Associates	-	564
Joint venture entities	30,856	-
Aggregate amounts receivable from, and payable to, each class of related parties at balance date:		
Receivables		
Associates	402	10,825
Joint venture entities	2,593	27,102
Payables		
Associates	-	-
Joint venture entities	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.

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 39 to 188, 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 2009 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) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations required by Section 295A of the *Corporations Act* 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2009.

Signed in accordance with a resolution of the directors:

Dated at Brisbane this 25th August 2009

John D Story	**Christopher Skilton**
Chairman	Executive Director

Report on the financial report

We have audited the accompanying financial report of Suncorp-Metway Ltd (the "Company"), which comprises the Balance Sheets as at 30 June 2009, and the Income Statements, Statements of Recognised Income and Expense, and Cash Flow Statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 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 2009 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 remuneration report included in section 4 of the Directors' Report for the year ended 30 June 2009. 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 report of Suncorp-Metway Ltd for the year ended 30 June 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Dr Andries B Terblanché
Partner

Brisbane
25 August 2009

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 so-called risk-free rate of return to price equity options.
Dividend yield	Dividend per share divided by the price per share.
Long tail and short tail insurance	Insurance products can be categorised as "short tail" or "long tail". In general terms, this name stems from the length of time (the "tail") that it takes for a claim to be made and settled. For "short tail" insurance products, claims are usually known and settled within 12 months. For "long tail" insurance products, claims may not even be reported within 12 months, and settlements can take many years.
Monte Carlo simulation	A method for iteratively evaluating a deterministic model using sets of random numbers as inputs. This method is often used when the model is complex, nonlinear, or involves more than just a couple of uncertain parameters.
Net interest margin	Net interest income divided by average interest-earning assets.
Net interest spread	The difference between the average interest rate on average interest-earning assets and the average interest rate on average interest-bearing liabilities.
Outstanding claims	All unpaid claims and related claims handling expenses relating to claims incurred prior to the reporting date.
Risk-weighted assets	Total of the carrying value of each asset class multiplied by their assigned risk weighting, as defined by APRA.