SUNCORP LIFE & SUPERANNUATION LIMITED
and its controlled entities
ABN 87 073 979 530

Consolidated financial report – 30 June 2006

This financial report covers both Suncorp Life & Superannuation Limited as an individual entity and the consolidated entity consisting of Suncorp Life & Superannuation Limited and its controlled entities

Suncorp Life & Superannuation Limited is a company limited by shares, incorporated and domiciled in Australia. Its office and principal place of business is:

Suncorp Life & Superannuation Limited
36 Wickham Terrace
Brisbane Qld 4000

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 1, which is not part of the financial report.

Contents

Your directors present their report together with the financial report for Suncorp Life & Superannuation Limited ("the Company") and the consolidated entity consisting of Suncorp Life & Superannuation Limited and its controlled entities ("the consolidated entity") for the year ended 30 June 2006.

DIRECTORS

The following persons were directors of the Company during the whole of the financial year and up to the date of this report:

John D Story (Chairman)	(Appointed 1 December 1996)
John F Mulcahy (Managing Director)	(Appointed 6 January 2003)
William J Bartlett	(Appointed 1 July 2003)
Dr Ian D Blackburne	(Appointed 3 August 2000)
Rodney F Cormie	(Appointed 1 December 1996) (Resigned 26 October 2005)
Dr Cherrell Hirst AO	(Appointed 8 February 2002)
James J Kennedy AO, CBE	(Appointed 1 August 1997)
Martin D E Kriewaldt	(Appointed 14 June 1996)
Christopher Skilton (Executive Director)	(Appointed 13 November 2002)
Dr Zygmunt E Switkowski	(Appointed 19 September 2005)

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the year were the provision of life insurance, superannuation and funds management products and related services to the retail, corporate and commercial sectors. There were no significant changes in the nature of the activities carried out by the consolidated entity during the year.

REVIEW OF OPERATIONS

Consolidated profit from ordinary activities after income tax attributable to equity holders of the parent for the year ended 30 June 2006 was $60.7 million (2005: $58.6 million). Current year profit benefited from the increase in equity markets.

Premiums for the year were $807.9 million (2005: $622.4 million), which included $101.5 million (2005: $92.7 million) of policy conversions transferring between statutory funds. The increase in premium is due to the increase in new business in the current year together with better retention rates.

Total consolidated assets increased from $4,805.2 million to $6,163.1 million. This is due to increased investment earnings as well as the inclusion of additional controlled unit trusts in the current year with assets of $763.7 million

The financial strength of our business is reflected by the coverage of the Solvency Reserve as set by the Life Insurance Actuarial Standards Board (LIASB). The coverage of the Solvency Reserve for the Statutory Funds at 2.6 at 30 June 2006 (2005: 2.6) has been maintained at a high level throughout the year.

Total distributions of profits to participating policyowners increased over the year. The prospects for participating policyowners remain very sound given the financial position of our Capital Guaranteed Fund and the current and prospective profitability of the fund. The capital adequacy position of the fund remains very strong and provides significant security for the guarantees being offered.

DIVIDENDS

Since the end of the year the directors have recommended the payment of a final dividend as follows:

A 2006 final dividend of $1.282 per ordinary share (2005: $1.026), amounting to $50 million (2005: $40 million).

The aggregate amount of the proposed dividend expected to be paid at a date to be set is not recognised in the balance sheets.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

EVENTS SUBSEQUENT TO BALANCE 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 consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

There has been no substantial change in business operations and none are expected in the coming financial year.

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

ENVIRONMENTAL REGULATION

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

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

INSURANCE OF OFFICERS

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

INDEMNIFICATION OF OFFICERS

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

CORPORATE GOVERNANCE

Audit Committee

The members of the Audit Committee at the end of the financial year are:
W J Bartlett (Chairman)
I D Blackburne
R F Cormie
Dr C Hirst
J J Kennedy
M D E Kriewaldt
J D Story
Dr Z E Switkowski

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

At all times throughout the reporting period, the members of the Audit Committee, as detailed above, were independent, non-executive directors. To further enhance the independence of the audit functions, (both internal and external) there were no management representatives on the committee during the year, however the Managing Director, Chief Financial Officer, and the internal and external auditor are invited to committee meetings at the discretion of the committee.

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

Risk Committee

The members of the Risk Committee at the end of the financial year are:
I D Blackburne (Chairman)
W J Bartlett
R F Cormie
Dr C Hirst
J J Kennedy
M D E Kriewaldt
J D Story
Dr Z E Switkowski

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

Nomination & Remuneration Committee

The members of the Nomination & Remuneration Committee at the end of the financial year are:
J D Story (Chairman)
I D Blackburne
Dr C Hirst

The primary role of this committee is to make recommendations to the Board on appointment and removal of directors, Board performance, the remuneration of directors and the remuneration and performance targets of the Managing Director, remuneration and performance targets of direct reports to the Managing Director, appointments to and terminations of Senior Executive positions reporting to the Managing Director, remuneration and human resource policy matters and to review Board and management succession planning.

DIRECTORS' INTERESTS AND BENEFITS

Directors' benefits are set out in note 38.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 5 and forms part of the director's report for the year ended 30 June 2006.

ROUNDING OF AMOUNTS

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

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

John D Story
Chairman

John F Mulcahy
Managing Director

Brisbane
1 September 2006

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001 to the directors of Suncorp Life & Superannuation Limited

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

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

KPMG

KPMG

Brian Greig
Partner

Brisbane
1 September 2006

		Company		Consolidated	
		2006	2005	2006	2005
	Note	$m	$m	$m	$m
Assets					
Cash and liquid assets	26	36.8	27.3	45.2	32.1
Outstanding premiums		6.2	5.0	6.2	5.0
Other financial assets					
Equity security investments	14	2,549.7	1,865.3	3,312.8	2,290.6
Debt security investments	14	1,348.9	1,549.6	2,076.5	2,028.0
Property investments	14	382.7	290.6	527.0	290.6
Other investments	14	0.1	(0.8)	0.2	(2.0)
Loans, advances and other receivables	15	207.2	200.5	79.3	88.3
Gross policy liabilities ceded under reinsurance	20(E)	60.6	43.3	60.6	43.3
Intangibles	16	39.8	7.3	39.8	7.3
Other assets	17	0.8	0.4	15.5	22.0
Total assets		4,632.8	3,988.5	6,163.1	4,805.2
Liabilities					
Payables and other liabilities	18	74.5	48.6	168.3	129.3
Premiums in advance		2.8	2.7	2.8	2.7
Deposits and short term borrowings	19	39.0	54.9	38.8	54.2
Deferred tax liabilities		95.8	52.5	95.8	52.5
Gross policy liabilities	20(A)	-	3,244.1	-	3,244.1
Gross insurance contract liabilities	20(B)	2,347.6	-	2,347.6	-
Gross investment contract liabilties	20(C)	1,558.8	-	1,558.8	-
Unvested policy owner benefits	20(F)	270.2	323.5	270.2	323.5
Outside beneficial interests	21	-	-	1,429.8	-
Total liabilities		4,388.7	3,726.3	5,912.1	3,806.3
Net assets		244.1	262.2	251.0	998.9
Equity					
Parent entity interest					
Share capital	22	39.0	39.0	39.0	39.0
Shareholder's retained profits	23	205.1	223.2	212.0	228.7
Total parent entity interest		244.1	262.2	251.0	267.7
Outside equity interests	13	-	-	-	731.2
Total equity		244.1	262.2	251.0	998.9

The above balance sheets should be read in conjunction with the accompanying notes.

		Company		Consolidated	
		2006	2005	2006	2005
	Note	$m	$m	$m	$m
Revenue					
Premium revenue	6	136.0	113.4	136.0	113.4
Outwards reinsurance premium expense		(27.8)	(29.6)	(27.8)	(29.6)
		108.2	83.8	108.2	83.8
Investment revenue	7	603.6	516.4	805.1	586.0
Other operating revenue	8	27.5	23.4	30.2	45.7
		739.3	623.6	943.5	715.5
Expenses					
Claims expense	9	(77.9)	(73.2)	(77.9)	(73.2)
Reinsurance recoveries revenue	8	20.0	21.9	20.0	21.9
		(57.9)	(51.3)	(57.9)	(51.3)
Operating expenses	10	(105.3)	(97.1)	(109.0)	(104.9)
Increase in net policy liabilities	20(D) (E)	-	(378.4)	-	(378.4)
Increase in net insurance contract liabilities	20(B) (E)	(288.9)	-	(288.9)	-
Increase in investment contract liabilities	20(C)	(207.9)	-	(207.9)	-
Decrease (increase) in unvested policy owner benefits	20(F)	55.2	24.3	55.2	24.3
Interest expense		-	-	(197.2)	-
		(604.8)	(502.5)	(805.7)	(510.3)
Profit before tax		134.5	121.1	137.8	205.2
Income tax expense	12	(75.2)	(64.1)	(77.1)	(64.9)
Profit for the year		59.3	57.0	60.7	140.3
Profit attributable to outside equity interests	13	-	-	-	(81.7)
Profit attributable to equity holders of the parent		59.3	57.0	60.7	58.6

The above income statements should be read in conjunction with the accompanying notes.

		Company		Consolidated	
		2006	2005	2006	2005
	Note	$m	$m	$m	$m
Profit for the year		59.3	62.1	60.7	142.0
Total recognised income and expenses for the year		59.3	62.1	60.7	142.0
Effect of change in accounting policy					
Effect of adoption of AASB 132, AASB 139, AASB 4, AASB 1038 on 1 July 2005 with 2004 not restated					
Net decrease in retained earnings		-	(5.1)	-	(1.7)
		59.3	57.0	60.7	140.3
Total recognised income and expense for the period attributable to:					
Equity holders of the parent		59.3	57.0	60.7	58.6
Outside equity interests		-	-	-	81.7
		59.3	57.0	60.7	140.3

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

		Company		Consolidated	
		2006	2005	2006	2005
	Note	$m	$m	$m	$m
CASH FLOWS FROM OPERATING ACTIVITIES					
Premiums received		704.6	529.1	704.6	529.1
Fee income received		27.4	23.3	26.6	20.9
Other operating income received		(0.3)	0.1	1.9	70.3
Reinsurance premiums paid		(26.3)	(29.3)	(26.3)	(29.3)
Claims payments under policies		(544.2)	(443.8)	(544.2)	(443.8)
Reinsurance and other recoveries received		3.4	0.8	3.4	0.8
Operating expenses paid		(84.9)	(76.9)	(268.5)	(266.2)
Interest received		70.1	94.5	124.9	82.4
Dividends received		266.0	220.6	126.5	78.8
Property income received		1.8	(82.6)	30.8	55.9
Other investment income received		(0.1)	(1.6)	(0.7)	(0.4)
Tax paid		(35.6)	(48.1)	(37.5)	(48.9)
Net cash inflow (outflow) from operating activities	26	381.9	186.1	141.5	49.6
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for purchase of investments		(1,591.0)	(1,114.9)	(8,406.9)	(7,150.2)
Proceeds from disposal of investments		1,280.0	927.5	7,528.5	6,792.0
Net decrease in loans advances and other receivables		-	-	-	-
Net cash inflow (outflow) from investing activities		(311.0)	(187.4)	(878.4)	(358.2)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net increase (decrease) in deposits and other borrowings		(13.3)	47.4	687.4	436.2
Proceeds from issue of ordinary shares		-	29.0	-	28.9
Redemption of preference shares		-	(29.0)	-	(29.0)
Dividends paid		(43.0)	(32.0)	(43.0)	(32.0)
Net cash inflow (outflow) from financing activities		(56.3)	15.4	644.4	404.1
NET INCREASE IN CASH AND CASH EQUIVALENTS		14.6	14.1	(92.5)	95.5
Cash at beginning of the financial year		96.2	82.1	237.5	142.0
CASH AT THE END OF THE FINANCIAL YEAR	26	110.8	96.2	145.0	237.5

The above statements of cash flows should be read in conjunction with the accompanying notes

NOTE	CONTENTS	PAGE

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Suncorp Life & Superannuation Limited ("the Company") is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2006 comprises Suncorp Life & Superannuation Limited and its subsidiaries (together referred to as "the consolidated entity") and the consolidated entity's interest in associated and jointly controlled entities.

(a) Statement of compliance

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

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

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS, and IFRS and AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards* has been applied.

An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 40. This note includes reconciliations of equity and profit or loss for comparative periods reported under previous Australian standards ("previous GAAP") to those reported for those periods under AIFRS.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The consolidated entity has elected to early adopt the following revised accounting standards and amendments:

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

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

- AASB 7 *Financial Instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 July 2007
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheets. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation,* AASB 101 *Presentation of Financial Statements,* AASB 114 *Segment Reporting,* AASB 117 *Leases,* AASB 133 *Earnings per Share,* AASB 139 *Financial Instruments: Recognition and Measurement,* AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards,* AASB 4 *Insurance Contracts,* AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts,* arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (continued)

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

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

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

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments held to back life insurance policy liabilities and life investment contract liabilities.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005) and in accordance with the Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest hundred thousand dollars unless otherwise stated

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

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

The accounting policies have been applied consistently by all entities in the consolidated entity.

Assets and liabilities have been presented on the face of the balance sheets in decreasing order of liquidity and do not distinguish between current and non-current items. The majority of the assets of the Company are investment assets held to back insurance contract and investment contract liabilities. Although the amount of those assets which may be realised and those liabilities which may be settled within 12 months of the reporting date is not always known, estimates have been provided in the respective notes. Details of other amounts expected to be recovered or settled (a) no more than 12 months after the reporting date, and (b) more than 12 months after the reporting date, have been provided.

(c) Principles underlying conduct of the life insurance business

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Principles underlying conduct of the life insurance business (continued)

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

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

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

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

(d) Basis of consolidation

(i) Controlled entities

Consolidation is the aggregation of the financial statements of the parent entity and its controlled entities and the elimination of intra group transactions and balances. Controlled entities are entities (companies and managed investment schemes or trusts) controlled by the Company.

The consolidated financial statements incorporate the assets and liabilities and profit and loss of all controlled entities. The Company and its controlled entities together are referred to in this financial report as the consolidated entity. 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.

Trust units are classified as a financial liability in accordance with AASB 132 *Financial Instruments: Disclosure and Presentation.* Accordingly, minority interests in controlled unit trusts held by parties other than Suncorp Life & Superannuation Limited are presented as outside beneficial interests. These minority interests were recognised as a component of equity in prior periods.

Related items of income and expense are recognised in the income statements at their gross amounts, with the offsetting amount attributable to outside interests recognised as an interest expense.

(ii) Transactions eliminated on consolidation

The effects of all transactions between entities in the consolidated entity are eliminated from the balance sheets and income statements in full.

(e) Foreign currency

Transactions denominated in foreign currencies are initially translated to Australian dollars at the spot exchange rates ruling at the date of the transaction. Foreign currency monetary assets and liabilities at balance date are translated to Australian dollars at the spot rates of exchange current on that date. The resulting differences on translation of monetary items are recognised in the income statements as exchange gains and losses in the financial year in which the exchange rates change.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Derivative financial instruments

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

As disclosed in note 2, the consolidated entity adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 40.

Current period policy

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

Derivative financial instruments are initially recognised at fair value, being the last price at trade date, excluding transaction costs and are subsequently remeasured at their fair value as at the reporting date, being the last trading price on that date. The resulting fair value gain or loss is recorded in the income statements.

Comparative period policy

Derivative financial instruments used by the consolidated entity are swaps, forwards, futures and options in the foreign exchange, interest rate and equity markets. Derivative financial instruments that are used to hedge underlying exposures are accounted for in a manner consistent with the accounting treatment of the underlying exposures. Accordingly, derivative financial instruments are marked to market and the resulting gains and losses are reported in the income statements.

Foreign exchange derivatives are entered into in order to hedge exchange rate risks arising from offshore liabilities. Interest rate derivatives are used to hedge interest rate risks inherent in the business. Equity options and futures are purchased to hedge exposures arising from equity investments.

(g) Cash and cash equivalents

Cash includes deposits at call and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts and are included in cash and cash equivalents for the purposes of the statements of cash flows

(h) Financial assets

As disclosed at note 2, the Company adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 10.

Current period policy

(i) Assets backing policy liabilities

The Company has determined that all assets within its statutory funds are assets backing policy liabilities. These assets are designated as fair value through profit and loss, and are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under accounting standards.

Financial assets are recognised at fair value. Given the short term nature of most receivables, the recoverable amount approximates fair value

- Investment securities comprise holdings in unlisted managed investment schemes, futures and forward foreign exchange contracts. Movements in the fair values between each balance date, being the last price on those dates, are recognised in the income statements.
- Premium debtors relate to policies of life insurance and are measured at present value with movements recognised in the income statements.
- Deferred acquisition costs on life investment contracts comprise the incremental variable distribution costs incurred when acquiring new business (refer note (i) for recognition and measurement policy).

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(h) Financial assets (continued)

Current period policy (continued)

- Reinsurance and other recoveries on life insurance contracts are measured at present value with movements recognised in the income statements.
- Other receivables include outstanding settlements on investment sales, distributions receivable and loans.

(ii) Assets not backing life insurance contract liabilities or life investment contract liabilities

Financial assets held within the shareholder fund and subsidiaries do not back life insurance contract liabilities or life investment contract liabilities. To ensure consistency across the Company, and except where specifically stated otherwise, all financial assets and all non-financial assets are recognised at fair value to the extent permitted under accounting standards. Adjustments to the value of such assets are recognised in the income statements when the corresponding accounting standards allow such treatment. The following assets are not held at fair value.

- Investments by Suncorp Life & Superannuation Limited in subsidiary companies are recorded at cost less any accumulated impairment losses. On consolidation, the investment in subsidiaries is eliminated.
- Loans and other receivables are measured at amortised cost less accumulated impairment losses.

(iii) Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or are transferred. A transfer occurs when substantially all the risks and rewards of ownership of the financial asset are passed to an unrelated third party

Comparative period policy

All assets are measured at net market values as at the reporting date and changes in their net market values are recognised in the income statements as revenues or expenses in the financial year in which the changes occur.

Net market values for listed investments and government securities are determined by reference to market quotations. Unlisted investments are determined by reference to independent valuations based on the latest available information on the investments. These principles also apply to investments through unitised vehicles.

Shares in controlled entities have been valued by directors at their net market value. Net market value has been determined based on embedded value.

Loans and other receivables are carried at net market value and settled regularly. Net market value is the present value of amounts due, subject to specific provision for any doubtful amounts. Receivables include outstanding settlements on investment sales and prepayment of policy premium.

(i) Deferred acquisition costs

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

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

For statutory fund life investment business and investment business written through the shareholder fund, all incremental acquisition costs are deferred and recognised as an asset in the balance sheets. The amount of the deferred acquisition costs are assessed at each reporting date and the asset is amortised as the revenue to which those costs relate is recognised. All other acquisition costs are expensed as incurred.

The acquisition costs deferred for investment contracts are determined as the lower of actual incremental costs incurred and the allowance for the recovery of those costs from the premiums or policy charges (as appropriate for each policy class)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment

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

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statements.

The recoverable amount of receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate being the effective interest rate computed at initial recognition of these financial assets. Receivables with a short duration are not discounted. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cashflows 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.

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

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.

(k) Financial liabilities

As disclosed at note 2, the Company adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 40.

Current period policy

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

(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 Company as at fair value through profit or loss.

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

(ii) Financial liabilities at amortised cost

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

The consolidated entity has classified the deposits and borrowings of the shareholder fund and consolidated entities as being loans and receivables and measured at amortised cost

Comparative period policy

(i) Creditors

These amounts represent liabilities for goods and services provided to the economic entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(ii) Deposits and borrowings

Borrowings comprise loans, deposits and advances owing to the parent entity, controlled entities, controlled entities of the parent entity and between funds. Transactions between the entities are on a normal commercial basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial liabilities (continued)

Current period policy (continued)

(iii) Other liabilities

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

(l) Deferred revenue

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

(m) Provisions

A provision is a liability of uncertain timing or amount which is recognised in the balance sheets when:

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

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

(n) Policy liabilities

As disclosed at note 2, the Company adopted certain AIFRS standards from 1 July 2005 and did not restate comparative information. This has resulted in an AIFRS policy being applicable for the current period and a previous GAAP policy being applicable for the comparative period. Both policies are set out below. The quantitative effect of the change in accounting policy is set out in note 40.

Current period policy

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

(i) Insurance contracts

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as MoS.

Under MoS, the excess of premium received over claims and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service). The movement in life insurance contract liabilities recognised in the income statements reflects the release of this margin.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Policy liabilities (Continued)

Current period policy (continued)

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

Allocation of operating profit and unvested policyholder benefits

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyholders by applying the MoS principles in accordance with the Life Act. Once profit is allocated to participating policyholders it can only be distributed to these policyholders.

Profit allocated to participating policyholders is recognised in the income statements as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyholders (ie unvested), and that which has been allocated to specific policyholders by way of bonus distributions (ie vested), are included within life insurance contact liabilities.

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

(ii) Investment Contracts

Life investment contracts consist of a financial instrument and a management services element The financial instrument element represents the unit liability to the policyholder and is measured at fair value, with a minimum equal to the amount payable on demand. Movements in fair value are recognised through the income statement. The management services element refers to activities and cashflows arising from management services provided, representing the deferral of fees yet to be earned and expenses yet to be recognised and is measured at fair value, refer notes 1(i) and 1(l).

Comparative period policy

Policy liabilities in the balance sheets and change in policy liabilities disclosed in the income statements, have been calculated using MoS methodology in line with guidance provided by Actuarial Standard 1.03 "Valuation Standard" issued by the Life Insurance Actuarial Standards Board.

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

(o) Liability adequacy test

The adequacy of the insurance and investment contract liabilities is evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. The investment contract test initially considers the recoverability of associated deferred acquisition cost assets. If it is determined using best estimate assumptions that a shortfall exists, it is immediately recognised in the income statements

(p) Unvested policy owner benefits

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

(q) Share capital

(i) Dividends

Provision is made for the amount of any dividend declared, determined, or publicly recommended by the directors on or before the end of the financial year, but not distributed at reporting date.

Where a dividend is declared post-reporting date but prior to the date of the financial statements, disclosure of the declaration is made in the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the balance sheets but are disclosed in the financial report, unless the possibility of settlement is remote, in which case no disclosure is made. If settlement becomes probable, a provision is recognised.

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

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

(s) Commitments

Commitments are not recorded in the balance sheets but are disclosed in the financial report at their face value. Disclosure is made in the following time bands from reporting date:

- within twelve months;
- twelve months or longer but not longer than five years; and
- longer than five years.

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

(t) Revenue

Current period policy

(i) Life Insurance Premium Revenue

Premiums received include premiums for life insurance contracts and life investment contracts. The premium recorded as revenue in the income statements relates to life insurance contracts. The components of premium that relate to life investment contracts are in the nature of deposits and qualify for recognition as liabilities. These amounts are treated 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 sheets. Premiums due after but received before the end of the financial year are shown as premiums in advance in the balance sheets.

(ii) Investment Revenue

Investment revenue and expenses

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

Interest

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

Dividends

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

(iii) Fees and other revenue

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

Investment contracts consist of a financial instrument and a management services element. The payment by the policyholder includes the amount to fund the financial instrument and a fee for the origination of the contract. In many cases, that origination fee is based on commission paid to financial planners for providing initial advice. Origination fees from investment contracts are deferred and recognised over the average expected life of investment contracts. Deferred origination fees are presented as an "Other Liability" on the balance sheets. The financial instrument is classified as an investment contract and is measured at fair value (see note (n)).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) **Revenue (continued)**

Current period policy (continued)

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

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

Comparative period policy

(i) Premium revenue

The Company adopts AASB 1038 *Life Insurance Business* which requires components of premiums that are not revenues (i.e. amounts akin to deposits and which qualify for recognition as liabilities) and components of claims that are not expenses (i.e. amounts akin to withdrawals from deposits and which qualify for recognition as reductions in liabilities) to be removed from reported changes in premiums and claims as shown in notes 6 and 9 (changes in policy liabilities in note 20). Application of this accounting policy has no impact on the financial results.

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 sheets. Premiums due after but received before the end of the financial year are shown as "Premiums in advance" in the balance sheets.

(ii) Investment revenue

All investment revenue is brought to account on an accruals basis.

Dividends are recognised as income on the date the shares are quoted ex-dividend. Distributions from unlisted unit trusts are recognised on the date the unit value is quoted ex-distribution.
Net realised and unrealised gains and losses are included in the income statements and are determined as the difference between the net market value at year end or consideration received (if sold during the period), and the net market value as at the prior year end or cost (if the investment was acquired during the period).

(iii) Fees and other revenue

Fees and commissions are taken to income in the financial year in which they are earned.

(u) **Acquisition costs**

Current period policy

(i) Life insurance activities

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

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

Acquisition losses in the income statements are recognised at inception.

(ii) Life investment activities

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

Comparative period policy

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

(i) Policy Acquisition Costs

Policy liabilities are determined by the Appointed Actuary after taking into account the value and future recovery of acquisition costs. Those costs are amortised over the period that they will be recoverable. The deferral and amortisation of acquisition costs are recognised in the income statements within 'increase/decrease in net policy liabilities'.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Acquisition costs (continued)

Comparative period policy (continued)

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

(ii) Other Acquisition Costs

Where acquisition costs are recouped through on-going management fees charged to the investors on products that are recorded in the Shareholder Fund, they are deferred and recognised in the balance sheets.

The deferred acquisition costs are measured at the lower of cost and recoverable amount and are amortised over the expected life of the policy. The amortisation is recognised in the income statements within 'operating expenses'.

(v) Claims expense

Current period policy

(i) Life insurance contracts

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

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

(ii) Life investment contracts

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

Comparative period policy

The Company adopts AASB 1038 *Life Insurance Business* which requires components of premiums that are not revenues (i.e. amounts akin to deposits and which qualify for recognition as liabilities) and components of claims that are not expenses (i.e. amounts akin to withdrawals from deposits and which qualify for recognition as reductions in liabilities) to be removed from reported changes in premiums and claims as shown in notes 6 and 9 (changes in policy liabilities in note 20). Application of this accounting policy has no impact on the financial results.

Claims under investment-linked business are recognised when the policy ceases to participate in the earnings of the fund. Claims on non investment-linked business are recognised when the liability to the policy owner under the policy contract has been established.

(w) Outwards reinsurance premium expense

Where portions of the policy are reinsured the ceded premiums are recognised in the income statements 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

(x) Basis of expense apportionment

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Basis of expense apportionment (continued)

The expense apportionment basis is in line with the principles set out in the Life Insurance Actuarial Standards Board Valuation Standard (Actuarial Standard AS1.04: Valuation Standard).

(y) Income tax

Current period policy

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

Deferred income tax is provided in full, using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The value reported in the balance sheets represents the net position of the Company and consolidated entity. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Accounting Standard AASB 1038 *Life Insurance Contracts* requires shareholder and policy owner tax to be included in income tax expense in the income statements. The majority of life insurance tax is allocated to policy liabilities and does not affect net profit attributable to members of the Company.

Tax consolidations

The Company and its wholly owned controlled entities are wholly owned controlled entities in a tax-consolidated group, with Suncorp-Metway Ltd as the head entity. The implementation date for the tax consolidated group was 1 July 2002.

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

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.

Comparative period policy

The consolidated entity adopts the liability method of tax effect accounting. For life insurance business, income tax expense is determined after segregating the operations into classes of business which are taxed at different rates and on different bases according to the rules relating to each class.

Tax effect accounting procedures are followed whereby the income tax expense in the income statements is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Income tax (continued)

Comparative period policy (continued)

Tax Consolidations

The Company and its wholly owned controlled entities are wholly owned controlled entities in a tax-consolidated group, with Suncorp-Metway Ltd as the head entity. The implementation date for the tax-consolidated group was 1 July 2002.

The head entity recognises all of the current and deferred tax balances and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

The Company and its wholly owned controlled entities have entered into tax sharing agreements that require them to make contributions to the head entity for tax liabilities arising from external transactions occurring after the implementation of tax consolidations. The Company's statutory funds' contribution will be calculated as a recharge of their "notional" tax expense for the period and are payable in accordance with the tax sharing agreement. The Company's shareholders funds' contributions are calculated based on the stand alone current year tax liability of the Company and are payable quarterly.

The assets and liabilities arising under the tax sharing agreements are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expenses/revenue.

(z) Goods and services tax

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

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

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

(aa) 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 statements 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.

2. CHANGES IN ACCOUNTING POLICY

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

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

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

A description of the changes in accounting policies from adopting these standards and the adjustments to the opening balance sheets at 1 July 2005 are set out in Part B of note 40.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Management have discussed with the Audit Committee, the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with the next financial year are discussed below.

(i) Insurance contract liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles and standards. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- the cost of providing the benefits and administering these insurance contracts; and
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts.

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

Balances of insurance contract liabilities are set out in note 20.

(ii) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the same methods as for insurance contract liabilities. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

Balances of assets arising from reinsurance contracts are set out in note 15.

(iii) Investment contracts – Deferred Acquisition Costs and Deferred Revenue

The assessment of recoverability and amortisation of deferred acquisition costs is an inherently uncertain process. There is no reliable measure of the future economic benefits that will arise from the acquisition costs incurred. This is largely due to the uncertainty surrounding continuance or surrender of certain policies. The acquisition costs are capitalised and separately disclosed in the balance sheets and amortised over the period to which the costs provide income

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

Balances of deferred acquisition costs are set out in note 16 and deferred revenue in note 18.

4. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS

Policy Liabilities

Policy liabilities are amounts which, when taken together with future premiums and investment earnings, are required to meet the payment of future benefits and expenses and for life insurance contracts, incorporate profit margins on existing business to be released when earned in future periods.

The effective date of the actuarial report on policy liabilities and solvency reserves is 30 June 2006. The actuarial report was prepared by Mr Rowan Ward, Appointed Actuary B Sc. FIAA, and indicates that the Appointed Actuary is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and with the standards of the Life Insurance Actuarial Standards Board (LIASB).

Policy liabilities have been calculated in accordance with Actuarial Standard 1.04 "Valuation Standard" (AS 1.04) issued by the LIASB under Section 114 of the Life Act. For Life Insurance contracts, the Actuarial Standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners and premiums are received. For Life Investment contracts, the Actuarial Standard requires the policy liabilities to be calculated in accordance with Australian Accounting Standards.

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

Business Type	Method	Profit Carrier
Individual		
Conventional	Projection	Bonuses
Investment account	Projection	Interest credits
Allocated pension	Projection	Interest credits
Lump sum risk	Projection	Expected claim payments
Income stream risk	Projection	Expected claim payments
Annuity	Projection	Annuity payments
Group		
Investment account	Projection	Interest credits
Lump sum risk	Accumulation	-
Income stream risk	Accumulation	-

Under the projection method, estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The projected profit margins are expressed as a percentage of the relevant profit carrier. The policy liability is calculated as the net present value of these projected cash flows.

Under the accumulation method for risk business the policy liability is basically equal to the sum of reserves for incurred but not reported claims, open disability income claims and unearned premium.

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

4. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

Policy Liabilities (Continued)

Assumption	Basis of Assumption	Significant Changes
Investment earnings	For participating business, assumed earning rates are determined having regard to the asset mix of the investment portfolio backing the product, the assumed earning rates for each sector, market conditions at the valuation date and tax on investment earnings appropriate to the class of business and asset sector. Pre-tax rates varied from 4.80% (2005: 4.10%) for the cash sub-funds to 8.60% (2005: 7.90%) for the balanced sub-funds and 9.8% (2005: 9.10%) for the equity sub-funds. All non-participating business uses an investment earnings and discount rate assumption of the risk free rate. This has been determined from the government bond curve and varied (before tax) between 5.8% and 5.9% (2005: 5.1% and 5.4%).	The use of a risk free rate, for risk products, was made as part of the introduction of AIFRS, as at 1 July 2005.
Maintenance expenses	Per policy expense rates are based upon expected costs to service existing contracts in the period following the reporting date. Expense rates vary by product line and class of business. Tax deductibility of expenses is allowed for, at rates appropriate to the taxation basis of the business.	None
Inflation	The inflation assumption is reviewed at each valuation. For this valuation 3.0%pa (2005: 2.5%pa) was assumed, taking into account the difference between long-term government bonds and indexed government bonds for Australia.	No changes in approach.
Voluntary discontinuance	Rates are based upon recent internal investigations and industry experience. Rates vary by product, class of business, policy value and duration in force. Allowance is also made for cash withdrawals. Future long-term rates of discontinuance assumed vary between 2% and 30% (2005: between 2% and 30%).	Assumed long term discontinuance rates for risk business reduced to reflect improvements in experience.
Surrender values	Surrender values are determined by applying the surrender bases current at the reporting date.	None
Rates of taxation	The rates of taxation assumed are based on current income tax legislation applicable to the type of product.	None
Mortality - risk products	Mortality rates for risk products have been determined using the standard mortality table (IA95-97) with adjustments for smoking status and also to allow for Suncorp Life & Superannuation Limited experience. Adjustments range from 76% (2005: 76%) to 160% (2005: 160%). Table IA95-97 was developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997.	None

4. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

Policy Liabilities (Continued)

Assumption	Basis of Assumption	Significant Changes
Mortality – Annuitants	Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments for expected mortality improvement. Tables IM/IF80 were developed by the Institute of Actuaries and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982.	None
Disability - lump sum	Disability rates on lump sum Total and Permanent Disablement policies have been based on industry experience with adjustments to reflect Suncorp Life & Superannuation Limited's experience. For trauma policies, assumed incidence rates are based on Australian population statistics with adjustments to reflect Suncorp Life & Superannuation Limited's experience.	Adjustments updated to reflect recent experience, with a decrease in assumed rates.
Disability – income	Disability rates on income policies have been determined using the IAD89-93 table with adjustments to reflect Suncorp Life & Superannuation Limited's experience. IAD89-93 was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993.	None
Future supportable bonuses and interest credits to participating policies	Future bonus rates and interest credits assumed are those supported by the policy liabilities and the assumed future experience, including allowance for the shareholder's right to participate in distributions. Using these rates the net present value of expected future cashflows equals the value of assets supporting the business. For participating whole of life and endowment business, the Company's policy is to set bonus rates such that, over long periods, the returns to policy owners (as a group, but not necessarily individually) are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. For participating investment account business crediting rates are set such that over long periods policy owners (as a group, but not necessarily individually) receive full investment earnings on their accounts less a deduction of explicit fees and charges. Distributions are split between policy owners and shareholder with the valuation allowing for the shareholder to participate in distributions at the maximum allowable rate of 20%. In determining policyowner distributions consideration is given to equity between generations of policy owners and equity between the various classes and sizes of policies in force.	No changes in approach

4. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

Policy Liabilities (Continued)

Other Requirements

The Life Act requires companies to meet prudential standards of solvency. The solvency requirements are determined in accordance with the Actuarial Standard 2.04 "Solvency Standard" issued by the LIASB under the Life Act. For the purposes of note 32, minimum termination values have been determined in accordance with Actuarial Standards 4.02 "Minimum Surrender Values and Paid Up Values" and 2.04.

Sensitivity Analysis – insurance contracts

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

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

For life insurance contracts which are accounted for under AS 1.04, amounts of liabilities, income or expense recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins.

The table below illustrates how changes in key assumptions would impact the current period reported profit and policy liabilities and equity at 30 June 2006 of the company.

Variable	Change*	Profit/(loss) (net of reinsurance) $m	Change in insurance contract liability (net of reinsurance) $m
Maintenance expenses	+ 10% increase	(0.1)	0.2
Mortality and lump sum morbidity	+ 10% increase	0.5	(0.7)
Morbidity – disability income	+ 10% increase in incidence and decrease in recovery rates	(3.6)	5.1
Discontinuance rates	+ 10% increase	-	-

* change is a relative change.

The table below illustrates the effects of changes in actuarial assumptions from 30 June 2005 to 30 June 2006.

Assumption Category	Effect on future profit margins $000 increase/(decrease)	Effect on policy liabilities $000 increase/(decrease)
Discount rates (risk business)	-	(3.5)
Discount rates (participating business)	13.4	-
Mortality and morbidity	0.6	-
Lapse and surrender rates	23.5	-
Maintenance expenses	(4.3)	-
Premium rate changes	(4.3)	-

5. RISK MANAGEMENT

The consolidated entity's financial condition and operating activities are affected by a number of key risks. The consolidated entity has implemented a general risk management framework to mitigate those risks.

General risk management framework

A structured risk management framework has been implemented throughout the consolidated entity in respect of all risks. The framework comprises organisational structure, policies, methodologies, processes, and delegation of authority to assume and approve risk, monitoring and reporting requirements.

The risk management framework is continuing to evolve in the consolidated entity and a number of initiatives are underway to enhance practices including the on-going development of an Enterprise Risk Management (ERM) framework to enhance accountabilities, reporting and practices. The ERM framework has been used to define accountabilities for oversighting, monitoring and advising, and management of the universe of risks inherent in the business. The universe of risks includes credit, market, liquidity, insurance, compliance, operational, reputational and strategic risks.

The consolidated entity is in the process of adopting a robust Economic Capital framework to identify risk capital at both a business unit level and comprehensively across the group and to augment business unit performance measurement framework.

The Board of Directors is responsible for approving the consolidated entity's risk appetite, strategy and policy and oversighting management's activities to monitor and control risk consistent with approved risk appetite. The 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 consolidated entity Group functions such as Risk provide a monitoring and advisory function on an independent basis. These functions facilitate the reporting of the status, appropriateness and quality of our risk management capabilities to the Risk Committee and the management of risk.

The general risk management framework provides an ongoing process for recognising and evaluating risks, development and implementation of both mitigation strategies and monitoring tools. All risks and their mitigators are documented in Risk Registers that are maintained at a business unit level and consolidated on a group basis. Risk Registers are reviewed annually. Each Register is signed off by the managers of the business unit and the relevant executive. Consolidated Risk Registers are endorsed by the Executive Risk Committee and submitted to provide assurance to the Risk Committee that management have identified the key risks including business continuity facing the Group.

Management is required as part of the monthly Due Diligence process to identify and report any events which have occurred and any breaches in authorities, policies or legislative requirements. These reports are endorsed through management and executives and included in the Chief Executive Officer's Due Diligence Report to the Risk Committee.

There are a number of compliance, risk management and review departments within the consolidated entity who are responsible for monitoring, reviewing and reporting on specific areas of the consolidated entity's operations. These departments include Group Risk Policy, Credit Approval, Credit Recovery, Credit Risk Systems, Credit Review, Group Compliance and Assurance, Investment Compliance, Group Operational Risk and Group Market Risk. These units report to the Risk Committee.

The Assurance function independently examines and evaluates the adequacy and effectiveness of the Group's control environment across risk management systems, operations and governance processes. Assurance makes reports independently to the Audit Committee and provides summaries of all audit reports, together with details of management's action plans to rectify any noted weaknesses, to the Executive Risk Committee and the Audit Committee. Any specific Assurance findings relating to the risk management framework are reported directly to the Risk Committee.

The Company has an approved Risk Management Statement which has been accepted by the Australian Prudential Regulation Authority ("APRA") as appropriate guidelines for the investment of the entities' funds including the use of derivatives. More detailed discussion on this is contained in note 27.

5. RISK MANAGEMENT (Continued)

General risk management framework (continued)

The Company has a shareholder fund and two statutory funds, being a Capital Guaranteed Fund and an Investment Linked Fund. Within the Capital Guaranteed Fund there are five sub-funds: Life Capital Guaranteed Funds No's 1 and 4, and Superannuation Capital Guaranteed No's 1, 4 and 5. Within the Investment Linked Fund there are thirteen sub- funds: the Life Capital Stable Fund, the Balanced Life Fund, the Superannuation Stable Fund, the Balanced Superannuation Fund, the MS Cash Pool Fund, the MS Balanced Fund, the MS Capital Stable Fund, the MS High Equity Fund, the Suncorp Metway Australian Equities Superannuation Fund, the Suncorp Metway International Equities Superannuation Fund, the Suncorp Imputation Fund, the Suncorp Metway Bonds Fund and the Suncorp Metway Property Fund. Each of these sub-funds has an investment mandate.

Insurance risk

Insurance risk is the risk that inadequate or inappropriate product design, pricing, underwriting, reserving, claims management and reinsurance management will expose an insurer to financial loss and consequent inability to meet its liabilities.

Risk management objectives and policies for mitigating insurance risk

The Company's objective is to satisfactorily manage these risks in line with the risk management framework approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk. The Company's exposure to all material risks is oversighted by the Board Risk Committee. Financial risks are generally monitored and controlled by the Risk Committee to ensure that there is no material asset and liability mismatching issues, taking into account the Company's capital position, and other risks such as liquidity risk and credit risk are maintained within acceptable limits.

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

Insurance risks are controlled through adherence to underwriting procedures, adequate premium rates and sufficient reinsurance arrangements. In relation to premium rates and reinsurance arrangements, the Company receives advice from the Appointed Actuary, in accordance with Section 116 of the *Life Insurance Act 1995*. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Capital

Capital is allocated by the company to the portfolios of contracts with similar risks or is held in a central reserve based on management's assessment of the risks to which each line of business is exposed and its view of the profitability of the products that are sold.

The Company's insurance operations are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the type, quality and concentration of investments held. In addition to the tests required by regulatory standards, sensitivity tests are performed annually (and reported in the Financial Condition Report), to ascertain the ability of the Statutory Funds to withstand various adverse 'asset shock' scenarios. The Company monitors its capital adequacy position on a monthly basis, in relation to both statutory requirements (as set out under actuarial standards) and its own internal target policy.

Underwriting procedures

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies meeting certain criteria are underwritten on the merits of the employee group as a whole. The underwriting process is periodically monitored by the Company's internal auditors to ensure adequate controls are in place over the underwriting process and that the controls are effective.

5. 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 Company depend.

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

Claims management

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

5. RISK MANAGEMENT (Continued)

Insurance risk (continued)

Concentrations of insurance risk

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

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

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

The Company's group life portfolio includes an Industry fund that offers death and TPD protection to employers, some with large workforces. Although a 50% quota share arrangement is in place for this policy, the concentration of such workforces in single locations remains a factor that exposes the company to a higher risk of loss in the event of an accident affecting the location where the insured employees work. The Company examines its exposure to such employers on a case by case basis to ascertain the need for 'catastrophe' excess of loss reinsurance.

Credit risk

Credit risk is the likelihood of future financial loss resulting from the failure of clients or counterparties to meet contractual payment obligations to the consolidated entity as and when they fall due. Credit risk occurs as a result of placement of reinsurance programs with counterparties and investment in financial instruments.

The Board Risk Committee monitors the effectiveness of credit risk management in relation to life insurance activities, including the investments and insurance portfolios, and reviews exposure to reinsurers. The consolidated entity has no specific concentration of credit risk with a single counterparty arising from the use of financial instruments in managing the investment portfolio other than that normally arising through dealings on recognised exchanges and off exchange dealings (over the counter contracts). The counterparties to over the counter contracts are limited to companies with strong credit ratings from a recognised credit rating agency. These counterparties are normally banks operating in Australia.

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

Market risk

In its operations the consolidated entity is exposed to a variety of market risks. Market risk is the risk of loss of current and future consolidated entity earnings from adverse moves in interest rates, foreign exchange rates, equities prices, property prices and prices of other financial contracts including derivatives. The consolidated entity has a risk management framework in place for market risk. The framework for each risk in described below. Derivative financial instruments are used to mitigate market risk (refer to note 27).

Asset and liability management techniques

Assets are allocated to various asset classes in accordance with explicit risk and return objectives. Expected portfolio risks are quantified through various metrics including a Value at Risk framework. Simulations of expected asset portfolio risk and returns are regularly conducted to ensure alignment with long-run investment objectives. Duration analysis is primarily used for interest-sensitive products and policies with long-term fixed payout patterns. Sensitivity analyses are primarily used for participating products and simulate the impact of certain market fluctuation scenarios on future cash flows, fair values or forecasted earnings. For non-discretionary participatory insurance products, such as unit-linked products, the interest and market risks are passed on to the policyholder.

Management of market risk is generally less critical for short-term insurance products, as the amounts and timing of claims do not vary significantly with interest rates or other market changes that affect the underlying investments.

5. RISK MANAGEMENT (Continued)

Market risk (continued)

Asset and liability management techniques (continued)

The premiums received and the investment returns (net investment income and realised gains and losses) provide substantial liquidity to meet claims payments and associated expenses as they arise. Consequently, there is greater flexibility in investment strategies while managing investments to ensure sufficient liquidity to meet the claims as they become due, based on actuarial assessments.

Interest rate risk

Interest rate risk is the risk of a loss of current and future consolidated entity earnings from adverse moves in interest rates. Interest rate risk arises from the investments in interest bearing securities. Any change in fair value of investments in interest bearing securities are immediately reflected in the income statements in accordance with the accounting policies discussed in note 1(h).

Derivative financial instruments are used to mitigate interest rate risk (refer to note 27).

The repricing periods attributable to the consolidated entity at 30 June 2006 were:

	Weighted Average Rate %	Floating Interest Rate $m	1 Year or less $m	2 to 5 Years $m	Over 5 Years $m	Total $m
Cash and short term liquid assets	5.7%	4.5	-	-	-	4.5
Cash on deposit	4.3%	182.2	-	-	-	182.2
Margin deposits	4.2%	19.3	-	-	-	19.3
Receivables	8.3%	12.9	-	-	-	12.9
Fixed interest securities	6.0%	-	115.7	392.3	78.1	586.1
Mortgage backed securities	6.2%	-	278.9	-	-	278.9
Discount securities	5.8%	-	289.5	-	-	289.5
Floating rate notes	6.4%	-	279.7	-	-	279.7
Money Market Securities	6.4%	-	153.6	10.0	-	163.6
	5.9%	218.9	1,117.4	402.3	78.1	1,816.7

The repricing periods attributable to the consolidated entity at 30 June 2005 were:

	Weighted Average Rate %	Floating Interest Rate $m	1 Year or less $m	2 to 5 Years $m	Over 5 Years $m	Total $m
Cash and short term liquid assets	5.5%	3.3	-	-	-	3.3
Cash on deposit	5.2%	204.2	-	-	-	204.2
Margin deposits	4.1%	23.4	-	-	-	23.4
Receivables	8.5%	12.5	-	-	-	12.5
Fixed interest securities	6.2%	-	217.6	405.7	124.3	747.6
Mortgage backed securities	6.0%	-	430.9	6.0	-	436.9
Discount securities	5.8%	-	188.9	-	-	188.9
Floating rate notes	6.2%	-	209.1	-	-	209.1
Money Market Securities	6.1%	-	97.0	68.8	-	165.8
	5.9%	243.4	1,343.5	480.5	124.3	1,991.7

5. RISK MANAGEMENT (Continued)

Market risk (continued)

Foreign exchange risk

Foreign exchange risk is the risk of a loss from adverse movements in exchange rates on open foreign currency positions.

The statutory funds of the Company invest in overseas assets. These assets back the liabilities within the funds. In the Investment Linked Fund any investment returns, whether positive or negative, are passed on to the policyholders. In the Capital Guaranteed Fund, capital and declared interest are guaranteed. The Fund maintains reserves in accordance with the standards of the LIASB to meet the risk of diminution of value associated with foreign exchange risk.

A controlled entity, Suncorp Investment Management Global Macro Trust enters into forward foreign exchange and futures contracts to provide capital appreciation by actively timing global currency, bond and equity markets using quantitative models to generate the trade positions. The terms and conditions of the forward foreign exchange contracts do not exceed one year.

Other market risks

In addition to cash and interest bearing securities, the investment portfolios contain exposures to equity and property markets. The investment mandate while providing higher returns must also consider the volatility of investment returns and the impact of volatility on both the capital adequacy and profitability of the business. To do this, the investment mandate was developed using a value at risk framework. An acceptable level of risk was agreed and an investment strategy was developed where the likely returns would fall within the agreed risk limits with a high degree of confidence. The performance of the investment mandate is regularly reviewed to ensure the risks are within the predicted limits. In accordance with the accounting policy discussed in note 1(h), these investments are measured at fair value at each balance date and changes in fair value are immediately reflected in the income statements. These principles also apply to investments through unitised vehicles.

Any overall downturn in the equities markets may impact on the future results of the consolidated entity. The impact of any significant movement is managed by ensuring that the investment portfolio (whether direct or through unitised vehicles) consists of a diverse holding of Australian and overseas companies and through the limited use of derivative financial instruments, as discussed in note 27.

Balance Sheet and Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Board Risk Committee has responsibility for oversight of liquidity risk for the consolidated entity. Balance sheet risk is the risk to earnings and capital arising from mismatches between assets and liabilities with varying maturity and repricing profiles, and from mismatches in term.

The ability to make claims payments in a timely manner is critical to the business of life insurance. The investment portfolio mandates ensure that sufficient cash deposits are available to meet day-to-day obligations.

Solvency margin requirements established by the Australian Prudential Regulation Authority ("APRA") are in place to reinforce safeguards for policyholders' interests, which are primarily the ability to meet future claims payments to policyholders. The solvency margins measure the excess of the value of the insurers' assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the year, and takes into account the specific risks faced by the Company.

The Company maintains a level of capital adequacy in accordance with Actuarial Standards issued by the LIASB.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is managed through the adoption of the consolidated entity's risk management framework. Operational risk events are tracked and monitored via a central loss database and reported regularly to the Executive Risk Committee and the Risk Committee.

Risks which cross all business units, such as business continuity and regulatory compliance, are coordinated centrally by Group Operational Risk and Group Policy and Compliance departments respectively. These risks are owned and managed by the Executive Risk Committee with monitoring by the Risk Committee. The Assurance department also conducts regular audits to assess the adequacy and effectiveness of internal controls and compliance with policy.

6. PREMIUMS

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Direct insurance premiums	705.7	529.2	705.7	529.2
Direct consideration for deferred annuities - rollover amounts	0.7	0.5	0.7	0.5
Policy conversions	101.5	92.7	101.5	92.7
Total insurance premium received or receivable	807.9	622.4	807.9	622.4
Insurance premiums recognised as a change in gross policy liabilities (Note 20))	(671.9)	(509.0)	(671.9)	(509.0)
Total insurance premium revenue	136.0	113.4	136.0	113.4

7. INVESTMENT REVENUE

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Interest, dividend and similar revenue sourced from:				
equity securities	266.0	218.5	126.9	82.1
debt securities	70.2	94.3	119.0	93.1
property	14.3	31.6	43.7	46.9
other	0.1	(0.4)	(0.5)	0.7
	350.6	344.0	289.1	222.8
Investment gains and (losses) sourced from:				
equity securities	229.3	72.1	501.5	257.3
debt securities	(16.8)	17.4	(18.9)	34.7
property	40.7	72.6	42.7	72.6
other	(0.2)	10.3	(9.3)	(1.4)
	253.0	172.4	516.0	363.2
Total investment income	603.6	516.4	805.1	586.0

8. REVENUE FROM OPERATING ACTIVITIES

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Revenue from operating activities				
Premium revenue (note 6)	136.0	113.4	136.0	113.4
Investment revenue including realised and unrealised gains and losses:				
Equity	495.3	290.6	628.4	339.4
Debt	53.4	111.7	100.1	127.8
Property	55.0	104.2	86.4	119.5
Other net investment revenue including realised and unrealised gains and (losses)	(0.1)	9.9	(9.8)	(0.7)
Total investment revenue (note 7)	603.6	516.4	805.1	586.0
Fees	27.4	23.3	26.6	20.9
Commissions	0.2	0.1	1.8	2.9
Amortisation of deferred entry fees *	(0.1)	-	(0.1)	-
Interest income	-	-	0.2	0.2
Non life insurance operating income	-	-	1.7	21.7
Total other revenue	27.5	23.4	30.2	45.7
Reinsurance recoveries	20.0	21.9	20.0	21.9
Total revenue	787.1	675.1	991.3	767.0

* The adoption of AASB 1038 *Life Insurance Contracts* has resulted in the deferral of explicit entry fees arising from investment contracts over the expected life of the underlying contracts. Presentation of prior year balances remains in accordance with previous GAAP.

9. CLAIMS

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Death and disability claims	73.2	65.5	73.2	65.5
Maturities	116.4	91.3	116.4	91.3
Annuities	35 4	28.6	35.4	28.6
Surrenders and terminations	321.6	262.3	321.6	262.3
Policy conversions	101.5	92.7	101.5	92.7
	648.1	540.4	648.1	540 4
Claims expense recognised as a change in gross policy liabilities (Note 20)	(570.2)	(467.2)	(570.2)	(467.2)
	77.9	73.2	77.9	73.2
Interim & terminal bonuses paid, included in total claims paid or payable	6 0	3.7	6 0	3.7

10. OPERATING EXPENSES

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Policy acquisition expenses:				
commission	11.7	8.9	10.2	7.8
other	33.8	29.6	33.8	29.6
Policy maintenance expenses:				
commission	5.0	4.4	5.0	4.4
other	51.2	46.8	41.0	38.5
Amortisation of deferred acquisition costs *	(7.5)	-	(7.5)	-
Investment management expenses	14.1	11.5	14.1	11.5
Total administration expenses - life insurance activities	108.3	101.2	96.6	91.8
Amortisation of non-life deferred acquisition costs	(3.1)	(4.1)	(3.1)	(4.1)
Administration expenses - non-life insurance activities	0.1	-	15.5	17.2
	105.3	97.1	109.0	104.9

* The adoption of AASB 1038 *Life Insurance Contracts* has resulted in the deferral of explicit entry fees arising from investment contracts over the expected life of the underlying contracts. Presentation of prior year balances remains in accordance with previous GAAP.

11. OPERATING RESULTS

Profit from operating activities before income tax expense has been arrived at after charging the following items:

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Employee expenses	4.2	4.2	4.2	4.2
Total employee expenses	4.2	4.2	4.2	4.2
Occupancy costs				
Office rental	3.8	4.0	3.8	4.0
Other	1.1	0.8	1.1	0.8
Total occupancy costs	4.9	4.8	4.9	4.8
Other expenses				
Communications	3.8	3.5	3.8	3.5
Technology	1.7	2.1	1.7	2.1
Financial	5.5	6.1	5.6	6.1
Marketing	4.0	4.7	4.0	4.7
Client service charges	2.3	1.4	2.3	1.4
Intra group expenses	72.4	59.4	67.1	57.4
Other	1.1	0.9	1.1	0.9
Total other	90.8	78.1	85.6	76.1

All employees of Suncorp Life & Superannuation Limited and its controlled entities are employed by an entity not within the consolidated entity and their associated costs are recharged to the Company through intra group expenses.

12. TAXATION

(a) Income tax expense

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Recognised in the Income Statement				
Current tax expense				
Current year	36.3	49.3	38.2	50.1
Adjustments for prior years	(0.7)	(1.1)	(0.7)	(1.1)
	35.6	48.2	37.5	49.0
Deferred tax expense				
Origination and reversal of temporary differences	39.6	15.9	39.6	15.9
Total income tax expense in income statement	75.2	64.1	77.1	64.9
Numerical reconciliation between income tax expense and pre-tax net profit				
Profit before tax	134.5	121.1	137.8	205.2
Income tax using the domestic corporation rate of 30% (2005: 30%)	40.4	36.2	41.4	61.5
Increase in income tax expense due to:				
Imputation gross up on dividends received	-	0.1	-	0.1
Non-deductible expenses	35.9	27.8	35.9	28.3
Decrease in income tax expense due to:				
Tax exempt revenues	-	-	-	-
Intercompany dividend elimination	(0.9)	-	-	-
Tax incentives not recognised in income statement	-	-	-	-
Income tax offsets and credits	(0.2)	(0.2)	(0.2)	(0.2)
Other	-	-	-	(25.0)
	75.2	63.9	77.1	64.7
Under/(over) provision in prior years	-	0.2	-	0.2
Income tax expense on pre-tax net profit	75.2	64.1	77.1	64.9

Prima facie income tax expense includes an amount of $74.5 million (2005: $62.1 million) attributable to the life insurance company statutory funds. The income tax expense is partly determined on a product basis and partly determined on a profit basis The income tax expense has been determined after aggregating various classes of business, each with different tax rates. The rates of taxation applicable to the taxable income of significant classes of business are as follows:

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

Under the Government's changes to life insurance taxation which applied from 1 July 2000 (contained in the New Business Tax System (Miscellaneous) Act (No.2) 2000), life insurers are taxed on all the profit made from their different activities. That is:

- risk business is taxed on broadly the same basis as for general insurers;
- investment business is taxed on broadly the same basis as for other investment entities; and
- complying superannuation business held in a virtual pooled superannuation trust is taxed on broadly the same basis as for pooled superannuation trusts.

12. TAXATION (Continued)

Taxation basis
The principal elements for the calculation of the taxable income for each class of business are as follows:

Assessable income

The assessable income for each taxable class of business in Australia includes:

- Complying superannuation business - taxable contributions transferred from superannuation funds, specified rollover amounts and investment income.
- Non-complying superannuation business - investment income.
- Other business - accident and disability premiums earned and investment income.
- Shareholder (general) funds and ordinary life insurance business - investment income.
- Retirement Savings Account business – taxable contributions and investment income credited to policyholders.

The gains and losses on sale of investments to the extent referable to the complying superannuation business, are determined under the capital gains tax provisions of the *Income Tax Assessment Act* (ITAA). The exceptions are gains on fixed interest securities and foreign exchange gains or losses referable to the superannuation business which are taxed primarily under the ordinary income provisions.

The gains and losses on the sale of investments to the extent referable to other taxable classes of business, are taxed primarily under the ordinary income provisions with the capital gains tax provisions potentially applying depending on the circumstance.

Allowable deductions

The allowable deductions for each taxable class of business in Australia include:

- Acquisition costs (such as commissions) in relation to investment related life insurance business, superannuation business and "other business".
- Other expenses referable to the business (such as investment expenses).
- An allocation of the general management expenses of the Company.

These deductions are then allocated to each class of business in accordance with the basis specified in the ITAA (which may or may not reflect the allocation of the expense for accounting purposes).

Allowable deductions in respect of "other business" within the life funds also include accident and disability claims and the movement during the period in the policy liability in respect of that business (which may differ from the policy liability recognised for accounting purposes).

Basis of income tax apportionment

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

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

12. TAXATION (Continued)

(c) Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
	$m	$m	$m	$m	$m	$m
Consolidated						
Intangible assets	-	-	11.9	0.9	11.9	0.9
Other investments	-	-	86.7	51.7	86.7	51.7
Deposits, notes, bonds and borrowings	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
Deferred revenue	2.1	-	-	-	(2.1)	-
Other	0.7	0.1	-	-	(0.7)	(0.1)
Tax (assets) / liabilities	2.8	0.1	98.6	52.6	95.8	52.5
Set off of tax	(2.8)	(0.1)	(2.8)	(0.1)	-	-
Net tax (assets) / liabilities	-	-	95.8	52.5	95.8	52.5
Company						
Intangible assets	-	-	11.9	0.9	11.9	0.9
Other investments	-	-	86.7	51.7	86.7	51.7
Deposits, notes, bonds and borrowings	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
Deferred revenue	2.1	-	-	-	(2.1)	-
Other	0.7	0.1	-	-	(0.7)	(0.1)
Tax (assets) / liabilities	2.8	0.1	98.6	52.6	95.8	52.5
Set off of tax	(2.8)	(0.1)	(2.8)	(0.1)	-	-
Net tax (assets) / liabilities	-	-	95.8	52.5	95.8	52.5

(d) Tax consolidation

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

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

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

A tax benefit of $Nil (2005: $0.2 million) from the elections provided by the consolidation legislation has been recognised in the period, and is included in "Under/(over) provision in prior years" shown at the beginning of this note.

13. OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Interest in profit from ordinary activities after income tax	-	-	-	81.7
Interest in retained profits at the end of the financial year	-	-	-	731.2

14. OTHER FINANCIAL ASSETS

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Equity security investments				
Directly held	-	-	2,534.9	1,690.4
Unit trusts	2,549.6	1,865.2	777.9	600.2
Investments in controlled entities	0.1	0.1	-	-
Total equities	2,549.7	1,865.3	3,312.8	2,290.6
Debt security investments				
Interest bearing securities:				
private sector - unsecured	99.5	68.9	1,675.4	1,639.5
public sector	-	-	-	9.2
semi public sector	-	-	47.1	132.4
Loans and advances:				
- loans on policies	5.0	4.9	5.0	4.9
- non-forfeiture loans	7.9	7.7	7.9	7.7
Unit trusts	1,236.5	1,468.1	341.1	234.3
Total debt	1,348.9	1,549.6	2,076.5	2,028.0
Property investments				
Unit trusts	382.7	290.6	527.0	290.6
Total property	382.7	290.6	527.0	290.6
Other investments	0.1	(0.8)	0.2	(2.0)
Total other financial assets	4,281.4	3,704.7	5,916.5	4,607.2

All investment assets (excluding investments in controlled entities) are designated as fair value through the profit and loss. Changes in fair value are immediately reflected in the income statements. The balance sheets, therefore, reflect the fair value of financial instruments. The methods adopted in valuation of investments and significant assumptions are discussed in note 1(h).

The investment in controlled entities (excluding controlled unit trusts) is $97,471 (2005: $147,323).

Amounts expected to be recovered or settled no more than 12 months after the reporting date
Investment assets of the life statutory funds comprising cash, equity securities, debt securities, property securities and other financial assets are held to back investment contract liabilities amounting to $1,558.8 million (2005: $1,224.2 million) and life insurance contract liabilities amounting to $2,347.6 million (2005: $2,019.9 million). Investment assets are traded on a regular basis taking into account the movements in liabilities as well as incoming cash flows.

15. LOANS, ADVANCES AND OTHER RECEIVABLES

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Loans, deposits and advances:				
parent entity	1.1	5.3	1.1	5.3
controlled entities of the ultimate parent entity	5.7	5.5	5.7	5.5
controlled entities	1.6	-	-	-
	8.4	10.8	6.8	10.8
Reinsurance recoveries receivable	8.5	9.2	8.5	9.2
Investment income accrued	188.5	178.4	62.0	66.0
Other debtors	1.8	2.1	2.0	2.3
	207.2	200.5	79.3	88.3
Expected to be realised with 12 months	206.5	199.8	78.6	87.6
Expected to be realised in more than 12 months	0.7	0.7	0.7	0.7
	207.2	200.5	79.3	88.3

16. INTANGIBLES

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Deferred acquisition costs	39.8	7.3	39.8	7.3
	39.8	7.3	39.8	7.3
Expected to be realised with 12 months	11.8	2.0	11.8	2.0
Expected to be realised in more than 12 months	28.0	5.3	28.0	5.3
	39.8	7.3	39.8	7.3

17. OTHER ASSETS

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Accrued interest	0.3	0.2	13.6	19.5
Other	0.5	0.2	1.9	2.5
	0.8	0.4	15.5	22.0
Expected to be realised with 12 months	0.8	0.4	15.5	22.0
	0.8	0.4	15.5	22.0

18. PAYABLES

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Policy claims in process of settlement	23.4	21.0	23.4	21.0
Sundry creditors and accrued expenses	27.2	18.1	89.2	46.5
Deferred service fees	7.0	-	7.0	-
Other	16.9	9.5	48.7	61.8
	74.5	48.6	168.3	129.3
Expected to be settled with 12 months	69.7	48.6	163.5	129.3
Expected to be settled in more than 12 months	4.8	-	4.8	-
	74.5	48.6	168.3	129.3

19. DEPOSITS AND SHORT TERM BORROWINGS

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Unsecured				
parent entity	38.6	53.8	38.4	53.9
controlled entities of the ultimate parent entity	0.4	0.3	0.4	0.3
controlled entities	-	0.8	-	-
	39.0	54.9	38.8	54.2
Expected to be settled with 12 months	39.0	54.9	38.8	54.2
	39.0	54.9	38.8	54.2

	Company 2006 $m	Company 2005 $m
20. POLICY LIABILITIES		
(A) Policy liabilities		
Gross policy liabilities	3,906.4	3,244.1
Gross policy liabilities ceded under reinsurance	(60.6)	(43.3)
Net policy liabilities	3,845.8	3,200.8
(B) Life insurance contract policy liabilities		
Gross policy liabilities at the beginning of the year	-	-
Change in accounting policy	2,022.7	-
	2,022.7	-
Insurance premiums recognised as a change in gross policy liabilities (Note 6)	331.3	-
Claims expense recognised as a change in gross policy liabilities (Note 9)	(312.6)	-
Increase (decrease) in life insurance contract policy liabilities reflected in the income statement	306.2	-
Increase (decrease) in gross policy liabilities	324.9	-
Gross policy liabilities at the end of the year	2,347.6	-
(C) Life investment contract policy liabilities		
Gross policy liabilities at the beginning of the year	-	-
Change in accounting policy	1,267.9	-
	1,267.9	-
Life investment contract contributions recognised in policy liabilities (Note 6)	340.6	-
Life investment contract withdrawals recognised in policy liabilities (Note 9)	(257.6)	-
Increase (decrease) in life investment contract policy liabilities reflected in the income statement	207.9	-
Increase (decrease) in gross policy liabilities	290.9	-
Gross policy liabilities at the end of the year	1,558.8	-
(D) Life insurance business policy liabilities		
Gross policy liabilities at the beginning of the year	-	2,804.9
Insurance premiums recognised as a change in gross policy liabilities (Note 6)	-	509.0
Claims expense recognised as a change in gross policy liabilities (Note 9)	-	(467.2)
Increase (decrease) in life insurance business contract policy liabilities reflected in the income statement	-	397.4
Increase (decrease) in gross policy liabilities	-	439.2
Gross policy liabilities at the end of the year	-	3,244.1
(E) Gross policy liabilities ceded		
Gross policy liabilities ceded at the beginning of the year	43.3	24.3
Increase (decrease) in gross policy liabilities ceded	17.3	19.0
Gross policy liabilities ceded at the end of the year	60.6	43.3
(F) Unvested policyowner benefits liability		
Unvested policyowner benefits at the beginning of the year	323.5	348.1
Increase (decrease) in unvested policyowner benefits	(55.2)	(24.3)
AIFRS adjustment to deferred tax liability	1.9	(0.3)
Unvested policyowner benefits at the end of the year	270.2	323.5

20. POLICY LIABILITIES (Continued)

	Current Basis (v) 2006 $m	Current Basis (v) 2005 $m	Previous Basis (iv) 2006 $m
(G) Components of net policy liabilities - insurance contracts (2005: all insurance and investment contracts)			
Best estimate liability			
Value of future policy benefits (i)	1,956.2	3,099.8	1,893.8
Value of future expenses	216.6	263.1	203.7
Value of unrecouped acquisition expenses	(126.7)	(148.2)	(113.6)
Balance of future premiums	(1,209.4)	(1,164.4)	(1,045.1)
Total best estimate liability	836.7	2,050.3	938.8
Value of future profits			
Policy owner bonuses (ii)	964.7	747.0	891.3
Shareholder profit margins	310.2	263.1	282.3
Total value of future profits	1,274.9	1,010.1	1,173.6
Total value of declared bonuses (iii)	175.3	140.4	175.3
Total net policy liabilities	2,286.9	3,200.8	2,287.7

Explanatory note:

i. Future policy benefits include bonuses credited to policy owners in prior periods but exclude current period bonuses (as set out in the income statement) and future bonuses (as set out in (ii)). Where business is valued by other than projection techniques, future policy benefits includes the account balance.

ii. Future bonuses exclude current period bonuses.

iii. Current year declared bonuses valued in accordance with the Actuarial Standard.

iv. Using the actuarial methods and assumptions relevant at the previous reporting date, but on current in force business.

v. Using the actuarial methods and assumptions relevant at the current reporting date on current in force business.

Capital Guarantees

Included in life insurance contract liabilities are amounts in respect of contracts with discretionary participation features. The amount of policy liabilities that relates to the guaranteed element of these contracts is $1,076 million.

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

For the majority of the investment contract and life insurance contract liabilities, there is no fixed settlement date. Based on Suncorp Life & Superannuation Limited's assumptions as to likely withdrawal patterns in the various product groups, it is estimated that approximately $745 million may be settled within 12 months of the reporting date. Amount settled in 2005 was $547 million.

21. OUTSIDE BENEFICIAL INTERESTS

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Outside beneficial interests	-	-	1,429.8	-

The change in accounting policy adopted in 2006 has resulted in recognising outside beneficial interests (previously classified as outside equity interests). Outside beneficial interests represent unitholder funds held and managed in controlled managed investment schemes by parties other than Suncorp Life & Superannuation Limited and presented as a liability in accordance with AASB 132 *Financial Instruments: Disclosure and Presentation*.

22. SHARE CAPITAL

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Issued and paid up capital				
39,000,000 ordinary shares, each fully paid (2005: 39,000,000)	39.0	39.0	39.0	39.0
	39.0	39.0	39.0	39.0

Ordinary Shares

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

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

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

23. RETAINED PROFITS

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Retained profits at the beginning of the financial year	223.2	210.9	228.7	210.9
Effect of change in accounting policy	(34.4)	(12.7)	(34.4)	(8.8)
Retained profits at the beginning of the financial year - restated	188.8	198.2	194.3	202.1
Net profit attributable to members of the parent entity	59.3	57.0	60.7	58.6
Dividends paid	(43.0)	(32.0)	(43.0)	(32.0)
Retained profits at the end of the financial year	205.1	223.2	212.0	228.7

24. RECONCILIATION OF MOVEMENT IN CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

	Share Capital $m	Retained Profits $m	Total $m	Outside Equity Interests $m	Total equity $m
Balance at 1 July 2005	39.0	228.7	267.7	731.2	998.9
Effect of change in accounting policy - remeasure	-	(34.4)	(34.4)		(34.4)
Effect of change in accounting policy - reclassify	-		-	(731.2)	(731.2)
Balance at 1 July 2005 - restated	39.0	194.3	233.3	-	233.3
Total recognised income and expense	-	60.7	60.7	-	60.7
Dividends to shareholders	-	(43.0)	(43.0)	-	(43.0)
Balance at 30 June 2006	39.0	212.0	251.0		251.0

25. DIVIDENDS

	Company 2006 $m	Company 2005 $m	Consolidated 2006 $m	Consolidated 2005 $m
Ordinary shares:				
Final dividend $1.026 (2005: $0.82) per fully paid share	40.0	8.2	40.0	8.2
Interim dividend $0.077 (2005: $nil) per fully paid share	3.0	-	3.0	-
Redeemable preference shares:				
Final dividend nil (2005: $0.82) per fully paid share	-	23.8	-	23.8
	43.0	32.0	43.0	32.0

Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a dividend of $50 million ($1.282 per fully paid ordinary share). The aggregate amount of the proposed dividend expected to be paid at a date to be set is not recognised in the balance sheets.

Franking credits

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

26. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Company		Consolidated	
	2006	2005	2006	2005
	$m	$m	$m	$m
Profit for the year	59.3	57.0	60.7	58.6
Classified as investing activities				
Changes in net market value of investments realised and unrealised:				
equity securities	(229.3)	(72.1)	(501.5)	(257.3)
debt securities	16.8	(17.4)	18.9	(34.7)
property securities	(40.7)	(72.6)	(42.7)	(72.6)
other securities	0.2	(10.3)	9.3	1.4
Change in assets and liabilities				
Decrease (increase) in:				
Insurance and other recoveries receivable	(16.6)	(21.1)	(16.6)	(21.1)
Premiums outstanding	(1.2)	(0.2)	(1.2)	(0.2)
Interest receivable	(0.1)	0.1	5.9	(10.7)
Dividends receivable	-	2.0	(0.4)	(3.3)
Property income receivable	(12.5)	(114.1)	(12.9)	9.0
Investment income receivables	(0.2)	(1.1)	(0.2)	(1.1)
Prepayments and deferred expenses	(10.7)	-	(10.7)	-
Other debtors	-	(4.9)	0.9	(6.4)
Increase (decrease) in:				
Net movement in tax balances	39.6	16.0	39.6	16.0
Premiums in advance	0.1	0.1	0.1	0.1
Claims outstanding	2.4	3.9	2.4	3.9
Reinsurance premiums paid	1.5	0.3	1.5	0.3
Policy liabilities	615.8	439.2	615.8	439.2
Policy owner retained profits	(55.2)	(24.6)	(55.2)	(24.6)
Other payables	7.4	3.9	(13.1)	(68.7)
Other liabilities	5.3	2.0	40.9	21.8
Net cash inflow (outflow) from operating activities	381.9	186.1	141.5	49.6
Reconciliation of cash				
Cash at bank	36.8	27.3	45.2	32.1
Cash deposits and short term securities included in investment assets - Interest bearing securities	74.0	68.9	99.8	205.4
	110.8	96.2	145.0	237.5

27. DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Statement

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

Definition

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

Objectives

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

Limits on derivative usage

The Risk Management Statement and investment mandates strictly prohibit the use of derivatives for speculative purposes or for leveraged trading. Leverage is here defined as creating a portfolio which would have sensitivity to an underlying economic or financial variable which is greater than could be achieved using only physical securities. Exposure limits have been established with respect to the various asset classes for each client portfolio. Within each asset class, derivative exposure limits are identified in the Risk Management Statement and limits have been established on daily transaction levels. For over the counter (OTC) derivatives authorised counter-parties must have a minimum Standard and Poors rating of "A" or the equivalent credit rating by a recognised credit rating agency

An independent compliance officer is responsible for monitoring these positions to ensure they do not exceed the authorities established in the investment mandate. Regular monitoring and control of these activities is the responsibility of the Risk Committee and internal audit.

Activities

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, OTC forward exchange contracts and interest rate and equity options.

Where the probability of exercising an option is less than one, a difference arises between notional principal and face value. For the years ended 2006 and 2005, notional principal amounts are equal to face value due to the absence of options in the investment portfolio. However, in future periods options may form part of the investment portfolio resulting in a difference between notional principal and face value amounts.

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

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

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

27. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	Company		Consolidated	
	Notional Principal Amount		Notional Principal Amount	
	2006	2005	2006	2005
	$m	$m	$m	$m
Less than one year	1,022.1	1,068.5	3,174.5	2,232.1
Greater than one year	-	-	-	-
	1,022.1	1,068.5	3,174.5	2,232.1

	Company		Consolidated	
	Face Value	Fair Value	Face Value	Fair Value
2006 Financial year	$m	$m	$m	$m
Forward exchange contracts	19.4	-	179.5	0.2
Interest rate futures	213.4	(0.7)	1,651.1	(1.0)
Equity futures	789.3	(25.1)	1,343.9	(18.8)
	1,022.1	(25.8)	3,174.5	(19.6)
2005 Financial year				
Forward exchange contracts	236.2	(0.8)	425.4	(2.4)
Interest rate futures	267.7	0.6	1,043.9	0.9
Equity futures	564.6	(3.0)	762.8	(2.9)
	1,068.5	(3.2)	2,232.1	(4.4)

28. AUDITORS' REMUNERATION

	Company		Consolidated	
	2006	2005	2006	2005
	$	$	$	$
Audit services				
Auditors of the Company - KPMG				
- Audit and review of financial reports	350,421	174,625	424,171	231,200
Other services				
Auditors of the Company - KPMG				
- Other assurance services	45,700	39,000	56,200	46,600
Other Auditors				
- Audit and review of financial reports (managed funds)	70,620	75,385	49,720	98,085
Total remuneration	466,741	289,010	530,091	375,885

Fees for services rendered by the entity's auditor in relation to the statutory audit are borne by the ultimate parent company, Suncorp-Metway Ltd.

Fees for services rendered by the auditors in relation to the audit of the EasySuper and Superplan managed funds are paid by the Company

29. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities considered remote

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

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

Derivative Instruments

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

Tax Consolidation

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

Litigation

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

Contingent assets

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

Litigation

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

30. SUMMARY OF SHAREHOLDER'S INTERESTS

	Statutory Funds		Shareholder Fund		Total Interests	
	2006	2005	2006	2005	2006	2005
	$m	$m	$m	$m	$m	$m
Operating profit after income tax	54.2	51.2	5.1	5.8	59.3	57.0
Shareholders' retained profits at the beginning of the financial year	169.5	154.5	53.7	56.4	223.2	210.9
Effect of change in accounting policy	(34.5)	(0.2)	0.1	(12.5)	(34.4)	(12.7)
Transfers of profits between funds	(45.3)	(36.0)	45.3	36.0	-	-
Dividends paid	-	-	(43.0)	(32.0)	(43.0)	(32.0)
Shareholders' retained profits at the end of the financial year	143.9	169.5	61.2	53.7	205.1	223.2
Share capital (note 22)	-	-	39.0	39.0	39.0	39.0
Capital transfers to statutory funds	29.8	29.8	(29.8)	(29.8)	-	-
Total shareholder's equity (note 36(C))	173.7	199.3	70.4	62.9	244.1	262.2

Components of shareholder's interests in statutory funds:		
Shareholders' retained profits - participating business	67.6	81.0
Shareholders' retained profits - non-participating business	76.3	88.5
Shareholder's capital	29.8	29.8
	173.7	199.3

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

31. RECONCILIATION TO LIFE ACT OPERATING PROFITS & RETAINED PROFIT OF STATUTORY FUNDS

(A) Allocation of operating profit

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

Participating business

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

Non-participating business

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

(B) Distribution of retained profits

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

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

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

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

	Policy owners' interests		Shareholder's interests		Total Statutory Funds	
	2006	2005	2006	2005	2006	2005
	$m	$m	$m	$m	$m	$m
(C) Details of operating profits						
Operating profit after income tax	-	-	54.2	51.2	54 2	51.2
Bonuses provided for or paid in the current period:						
interim & terminal bonus on claims paid	6.0	3.7	-	-	6.0	3.7
declared bonus on in force policies	175.3	140.4	-	-	175 3	140.4
Increase in policy owner retained profits	(55.2)	(24 3)	-	-	(55.2)	(24.3)
Life Act operating profit after income tax	126.1	119.8	54.2	51.2	180.3	171.0
Sources of the operating profit:						
From non-investment linked business:						
participating business	126.1	119.8	31.6	30 0	157.7	149.8
non-participating business	-	-	14.7	12.1	14.7	12.1
From investment linked business.						
non-participating business	-	-	7.9	9.1	7.9	9.1
	126.1	119.8	54.2	51.2	180.3	171.0

31. RECONCILIATION TO LIFE ACT OPERATING PROFIT & RETAINED PROFITS OF STATUTORY FUNDS (Continued)

(D) Details of retained profits

	Policy owners' interests		Shareholder's interests		Total Statutory Funds	
	2006	2005	2006	2005	2006	2005
	$m	$m	$m	$m	$m	$m
Retained profits at the beginning of the financial year	-	-	169.5	154.5	169.5	154.5
Liability for unvested policyowner benefits (note 20)	323.5	348.1	-	-	323.5	348.1
Life Act retained profits at the beginning of the financial year	323.5	348.1	169.5	154.5	493.0	502.6
Life Act operating profit after income tax	126.1	119.8	54.2	51.2	180.3	171.0
Effect of change in accounting policy	1.9	(0.3)	(34.5)	(0.2)	(32.6)	(0.5)
Transfer to shareholder's fund from participating business (note 30)	-	-	(45.3)	(36.0)	(45.3)	(36.0)
Provision for bonuses to participating policy owners'	(181.3)	(144.1)	-	-	(181.3)	(144.1)
Life Act retained profits at the end of the financial year	270.2	323.5	143.9	169.5	414.1	493.0
Policy owner retained profits at the end of the financial year	(270.2)	(323.5)	-	-	(270.2)	(323.5)
Retained profits at the end of the financial year	-	-	143.9	169.5	143.9	169.5
Components of Life Act retained profits at the end of the financial year:						
Policy owners' interests	270.2	323.5	-	-	270.2	323.5
Shareholder's interests in participating business	-	-	67.6	81.0	67.6	81.0
Shareholder's interests in non-participating business	-	-	76.3	88.5	76.3	88.5
	270.2	323.5	143.9	169.5	414.1	493.0

32. SOLVENCY REQUIREMENTS OF THE STATUTORY FUNDS

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

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

		Statutory Fund No.1		Statutory Fund No.2		Total Statutory Funds	
		2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m
Solvency requirement	'A'	2,420.2	2,173.6	1,604.7	1,279.9	4,024.9	3,453.5
Represented by:							
Minimum termination value		1,909.2	1,701.9	1,544.7	1,258.5	3,453.9	2,960.4
Other liabilities		209.7	170.3	40.4	15.7	250.1	186.0
Solvency reserve	'B'	301.3	301.4	19.6	5.7	320.9	307.1
		2,420.2	2,173.6	1,604.7	1,279.9	4,024.9	3,453.5
Assets available for solvency reserve	'C'	764.2	753.3	71.5	53.2	835.7	806.5
Comprising:							
Excess of net policy liabilities (includes policy owner bonuses) over minimum termination value		378.7	301.4	13.2	(17.7)	391.9	283.7
Net assets		115.3	128.4	58.3	70.9	173.6	199.3
Liability for policy owner retained profits at end of year		270.2	323.5	-	-	270.2	323.5
		764.2	753.3	71.5	53.2	835.7	806.5
Solvency reserve %	(B/(A-B)) x 100	14.2%	16.1%	1.2%	0.4%	8.7%	9.8%
Coverage of solvency reserve	C/B	2.5	2.5	3.6	9.3	2.6	2.6

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

	Insurance Contract Business 2006 $m	Investment Contract Business 2006 $m	Management Services Element of Investment Contract 2006 $m	Total 2006 $m	Total 2005 $m
33. STATEMENT OF SOURCES OF OPERATING PROFIT					
Life Act shareholder' profit in the statutory funds					
The shareholder's operating profit after income tax in the statutory funds is represented by:					
Investment earnings on shareholder's retained profits and capital	13.8	-	4.6	18.4	20.7
Emergence of shareholder's planned profits	29.1	-	-	29.1	31.4
Experience profit (loss)	2.7	-	3.3	6.0	(1.0)
(Losses Capitalised)/Reversal of capitalised loss	0.7	-	-	0.7	0.1
Life Act shareholders' operating profit after income tax	46.3	-	7.9	54.2	51.2
Cumulative losses carried forward at the end of the financial year	1.4	-	-	1.4	1.0
Life Act policy owners' operating profit in the statutory funds					
The Life Act policy owners' operating profit after income tax in the statutory funds is represented by:					
Investment earnings on retained profits	35.1	-	-	35.1	38.6
Emergence of policy owner planned profits	94.9	-	-	94.9	87.8
Experience profit/(loss)	(3.9)	-	-	(3.9)	(6.6)
Life Act policy owners' operating profit after income tax	126.1	-	-	126.1	119.8

34. DISCLOSURES ON ASSET RESTRICTIONS, MANAGED ASSETS AND TRUSTEE ACTIVITIES

Restrictions on assets
Investments held in the Life Statutory Funds can only be used within the restrictions imposed under the Life Act and the Constitution of the Company. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions. Participating policy owners can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements are met.

Restrictions on Trust's funds
Restrictions exist on the ability of the consolidated entity to access funds of the controlled unit trusts. There are no restrictions on the rights of the unitholders to withdraw their investment.

Trustee activities
Suncorp Superannuation Pty Ltd, a controlled entity of the Company, acts as trustee in relation to various superannuation policies issued by the Company. Arrangements are in place to ensure that the activities of Suncorp Superannuation Pty Ltd are managed separately.

35. SEGMENT INFORMATION

	Consolidated 2006 $m	Consolidated 2005 $m
Total revenue (note 8)		
Life insurance activities	787.1	675.1
Non-life insurance activities	1,060.5	20.4
Elimination of controlled entities	(856.3)	71.5
	991.3	767.0
Operating profit before income tax		
Life insurance activities	134.5	121.1
Non-life insurance activities	6.3	4.2
Elimination of controlled entities	(3.0)	79.9
	137.8	205.2
Assets		
Life insurance activities	4,632.8	3,988.5
Non-life insurance activities	5,874.6	891.7
Elimination of controlled entities	(4,344.3)	(75.0)
	6,163.1	4,805.2

The Company operates predominantly within Queensland, New South Wales and Victoria. Non-life insurance activities include the provision of superannuation administration services and funds management products.

36. STATUTORY FUNDS SEGMENT INFORMATION

(A) Statutory Funds Information

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

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

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

36. STATUTORY FUNDS SEGMENT INFORMATION (Continued)

(B) Abbreviated Income Statement at fund and category level for the year ended 30 June 2006

	Non-Investment Linked Statutory Fund No 1 2006 $m	Investment Linked Statutory Fund No 2 2006 $m	Total Statutory Funds 2006 $m	Shareholder Fund 2006 $m
Premium revenue	133.7	2.3	136.0	-
Outwards reinsurance expense	(27.8)	-	(27.8)	-
	105.9	2.3	108.2	-
Investment revenue	344.5	251.2	595.7	7.9
Other revenue	10.8	-	10.8	16.7
Total revenue	461.2	253.5	714.7	24.6
Claims expense	(77.9)	-	(77.9)	-
Reinsurance recoveries	20.0	-	20.0	-
	(57.9)	-	(57.9)	-
Operating expenses	(67.6)	(18.9)	(86.5)	(18.8)
Increase in net insurance contract liabilities	(288.9)	-	(288.9)	-
Increase in investment contract liabilities	-	(207.9)	(207.9)	-
(Increase) in policy owner retained profits	55.2	-	55.2	
Total operating expenses	(359.2)	(226.8)	(586.0)	(18.8)
Operating profit (loss) before income tax (expense)/benefit	102.0	26.7	128.7	5.8
Income tax (expense) benefit	(55.7)	(18.8)	(74.5)	(0.7)
Profit from ordinary activities after income tax (expense) benefit	46.3	7.9	54.2	5.1

36. STATUTORY FUNDS SEGMENT INFORMATION (Continued)

(B) Abbreviated Income Statement at fund and category level for the year ended 30 June 2005

	Non-Investment Linked Statutory Fund No 1 2005 $m	Investment Linked Statutory Fund No 2 2005 $m	Total Statutory Funds 2005 $m	Shareholder Fund 2005 $m
Premium revenue	111.8	1.6	113.4	-
Outwards reinsurance expense	(29.6)	-	(29.6)	-
	82.2	1.6	83.8	-
Investment revenue	341.8	169.0	510.8	5.6
Other revenue	7.5	-	7.5	15.9
Total revenue	431.5	170.6	602.1	21.5
Claims expense	(73.2)	-	(73.2)	-
Reinsurance recoveries	21.9	-	21.9	-
	(51.3)	-	(51.3)	-
Operating expenses	(61.7)	(21.7)	(83.4)	(13.7)
Decrease in net policy liabilities	(248.9)	(129.5)	(378.4)	-
(Increase) in policy owner retained profits	24.3	-	24.3	-
Total operating expenses	(337.6)	(151.2)	(488.8)	(13.7)
Operating profit (loss) before income tax (expense)/benefit	93.9	19.4	113.3	7.8
Income tax (expense) benefit attributable to operating profit (loss)	(51.8)	(10.3)	(62.1)	(2.0)
Profit from ordinary activities after income tax (expense) benefit	42.1	9.1	51.2	5.8

36. STATUTORY FUNDS SEGMENT INFORMATION (Continued)

(C) Abbreviated Balance Sheet at fund and category level for the year ended 30 June 2006

	Non-Investment Linked Statutory Fund No 1 2006 $m	Investment Linked Statutory Fund No 2 2006 $m	Total Statutory Funds 2006 $m	Shareholder Fund 2006 $m
Equities securities	-	-	-	-
Debt securities				
private sector - unsecured	-	-	-	-
Loans and advances	-	-	-	-
Unit trusts	2,713.7	1,551.8	4,265.5	15.9
Other directly held assets	-	-	-	-
Total investment assets	2,713.7	1,551.8	4,265.5	15.9
Policy liabilities ceded	60.6	-	60.6	-
Other assets	169.4	104.8	274.2	78.4
TOTAL ASSETS	2,943.7	1,656.6	4,600.3	94.3
Gross policy liabilities	2,348.5	1,557.9	3,906.4	-
Policy owner retained profits	270.2	-	270.2	-
Other liabilities	209.6	40.4	250.0	23.9
TOTAL LIABILITIES	2,828.3	1,598.3	4,426.6	23.9
NET ASSETS	115.4	58.3	173.7	70.4
Share capital	-	-	-	39.0
Capital transfers	5.2	24.6	29.8	(29.8)
Retained profits	110.2	33.7	143.9	61.2
TOTAL EQUITY	115.4	58.3	173.7	70.4

36. STATUTORY FUNDS SEGMENT INFORMATION (Continued)

(C) Abbreviated Balance Sheet at fund and category level for the year ended 30 June 2005

	Non-Investment Linked Statutory Fund No 1 2005 $m	Investment Linked Statutory Fund No 2 2005 $m	Total Statutory Funds 2005 $m	Shareholder Fund 2005 $m
Equities securities	-	-	-	0.1
Debt securities				
private sector - unsecured	54.4	13.8	68.2	0.7
Loans and advances	12.5	-	12.5	-
Unit trusts	2,358.0	1,246.6	3,604.6	19.4
Other directly held assets	(0.6)	(0.2)	(0.8)	-
Total investment assets	2,424.3	1,260.2	3,684.5	20.2
Policy liabilities ceded	43.3	-	43.3	-
Other assets	157.9	67.2	225.1	61.9
TOTAL ASSETS	2,625.5	1,327.4	3,952.9	82.1
Gross policy liabilities	2,003.3	1,240.8	3,244.1	-
Policy owner retained profits	323.5	-	323.5	-
Other liabilities	170.3	15.7	186.0	19.2
TOTAL LIABILITIES	2,497.1	1,256.5	3,753.6	19.2
NET ASSETS	128.4	70.9	199.3	62.9
Share capital	-	-	-	39.0
Capital transfers	5.2	24.6	29.8	(29.8)
Retained profits	123.2	46.3	169.5	53.7
TOTAL EQUITY	128.4	70.9	199.3	62.9

37. CONTROLLED ENTITIES

	Country of Incorporation	Class of Share	2006 %	2005 %
Suncorp Life & Superannuation Limited	Australia	Ordinary		
Subsidiaries (1)				
SIP Super Pty Ltd	Australia	Ordinary	100	100
Suncorp Financial Services Pty Ltd	Australia	Ordinary	100	100
Suncorp Superannuation Pty Ltd	Australia	Ordinary	100	100

Managed Investment Schemes

During the year the consolidated entity recognised control for the following:	2006 %	2005 %
Suncorp Investment Management Global Macro Tactical Asset Allocation Trust (gained control 15 December 2005) (2)	64	-
Suncorp Investment Management Australian Property Trust (gained control 1 January 2006) (3)	69	-

Control had been recognised for the following during the year ended 30 June 2005 and continues to be recognised:

	2006 %	2005 %
Suncorp Investment Management Australian Equities Trust (4)	75	85
Suncorp Investment Management Australian Fixed Interest Trust	89	91
Suncorp Investment Management World Equities Trust (5)	67	67
Suncorp Investment Management Australian Cash Trust (6)	71	75
Suncorp Investment Management World Fixed Interest Trust	92	94
Controlled entities of Suncorp Investment Management World Fixed Interest Trust		
- Suncorp Investment Management Mortgage Backed Trust	87	88

Suncorp Life & Superannuation Limited holds a 50.56% interest in the Suncorp Investment Management Imputation Trust which has not been consolidated. Control is recognised at a Suncorp-Metway Ltd group level only, as control only exists where there is greater than 50% ownership and a Group subsidiary (Suncorp Metway Investment Management Limited) is the responsibility entity.

Notes
(1) These investments form part of the investment assets.
(2) Suncorp Life & Superannuation Limited holds a 64.16% interest, GIO General Limited holds a 14.61% interest and Suncorp-Metway Ltd holds a 17.99% interest in the Suncorp Investment Management Global Macro Tactical Asset Allocation Trust.
(3) Suncorp Life & Superannuation Limited holds a 68.72% interest, GIO General Limited holds a 7.18% interest and Suncorp-Metway Ltd holds a 2.98% interest in the Suncorp Investment Management Australian Property Trust.
(4) Suncorp Life & Superannuation Limited holds a 74.82% interest in, GIO General Limited holds a 2.54% interest and Suncorp Metway Insurance Ltd holds a 3.47% interest in the Suncorp Investment Management Australian Equities Trust.
(5) Suncorp Life & Superannuation Limited holds a 67.06% interest, GIO General Limited holds a 7.87% interest and Suncorp Metway Insurance Ltd holds a 6.79% interest in the Suncorp Investment Management World Equities Trust.
(6) Suncorp Life & Superannuation Limited holds a 71.25% interest and Suncorp Metway Insurance Ltd holds a 21.07% interest in the Suncorp Investment Management Australian Cash Trust

38. RELATED PARTIES

Key management personnel compensation

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

	Company		Consolidated	
	2006	2005	2006	2005
	$	$	$	$
Short-term employee benefits	10,973,188	10,308,891	10,973,188	10,308,891
Long-term employee benefits	(833)	27,769	(833)	27,769
Post-employment benefits	138,085	201,256	138,085	201,256
Termination benefits	-	-	-	-
Equity compensation benefits	3,783,015	2,647,401	3,783,015	2,647,401
	14,893,455	13,185,317	14,893,455	13,185,317

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

Other key management personnel transactions

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

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

Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 37), its key management personnel (refer to disclosures for key management personnel on preceding pages) and other entities within the wholly-owned group (which consists of Suncorp-Metway Ltd and its wholly owned and controlled entities). The immediate parent entity and the ultimate parent entity in the wholly-owned group is Suncorp-Metway Ltd.

Other related parties

Key management personnel related parties

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

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

Mr J D Story is the non-executive Chairman of the firm Corrs Chambers Westgarth Lawyers, which from time to time rendered legal services to the Company in the ordinary course of business. Fees paid to the firm during the financial year amounted to $49,666 (2005: $44,365). There are no amounts currently payable at balance date to Corrs Chambers Westgarth Lawyers (2005: nil).

Mr Martin D E Kriewaldt provided advice to Aon Holdings Australian Limited and Allens Arthur Robinson Lawyers. Those firms provided insurance brokerage and legal services respectively, to the Suncorp Group. These services are provided under normal terms and conditions.

38. RELATED PARTIES (Continued)

Other related party transactions

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

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

	Company	
	2006	2005
	$m	$m
Distribution fee income:		
controlled entities	(1.1)	(2.2)
	(1.1)	(2.2)
Management fee income:		
controlled entities	(2.1)	(2.4)
controlled entities of the parent entity	(12.6)	(10.8)
distributions from controlled unit trusts	(357.7)	(307.7)
	(372.4)	(320.9)
Administration expenses:		
parent entity	51.7	43.8
controlled entity	5.3	2.0
controlled entities of the parent entity	15.4	13.6
	72.4	59.4
Dividends paid or due and payable		
controlled entity	3.0	-
	3.0	-

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

	Company	
	2006	2005
	$m	$m
Loans, advances and other receivables:		
parent entity (note 15)	1.1	5.3
controlled entities of the ultimate parent entity (note 15)	5.7	5.5
controlled entities (note 15)	1.6	-
controlled unit trusts - distributions receivable	181.6	161.7
	190.0	172.5
Deposits and short term borrowings:		
parent entity (note 19)	15.8	13.2
parent entity - transfer of provision of current income tax under tax sharing agreement (note 19)	22.8	40.6
controlled entities of the ultimate parent entity (note 19)	0.4	-
controlled entities (note 19)	-	1.1
	39.0	54.9

39. SUBSEQUENT EVENTS

Dividends

For dividends declared after 30 June 2006, see note 25.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the consolidated entity, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

40. EXPLANATION OF THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in note 1(a), the consolidated entity has prepared these consolidated financial statements in accordance with AIFRS. As these consolidated financial statements are for the first year reported in accordance with AIFRS, it is necessary to explain how the transition from the previous GAAP to AIFRS affected the previously reported financial position, financial performance and cash flows since 30 June 2004.

The consolidated entity transitioned to AIFRS on 1 July 2004. In preparing the opening AIFRS balance sheets, comparative information for the year ended 30 June 2005 has been restated using AIFRS with certain exceptions. An explanation of the impact of transition to AIFRS of the standards applied to the comparative information is set out in Part A of this note.

As permitted by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the consolidated entity has elected not to apply AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 139 *Financial Instruments. Recognition and Measurement*, AASB 4 *Insurance Contracts* and AASB 1038 *Life Insurance Contracts* to the comparative information, and therefore these standards apply from 1 July 2005 An explanation of the impact of these standards on the transition to AIFRS is set out in Part B of this note.

This note includes reconciliations and accompanying notes that set out the effect of the transition to AIFRS for changes in accounting policies at 1 July 2004, 30 June 2005 and 1 July 2005. The balance sheet reconciliations split the AIFRS transition adjustments between reclassification and remeasurement adjustments – 'reclassification' represents the reclassification of amounts from their previous GAAP balance sheets lines to the appropriate AIFRS Balance Sheet lines; 'remeasurement' represents adjustments due to a change in the measurement basis from the previous GAAP. The income statements reconciliations show the previous GAAP amounts, adjustment items and restated AIFRS amounts.

Part A: AIFRS adjustments in the comparative period

The restated balance sheet of the Company and the consolidated entity at 1 July 2004 and 30 June 2005 and the restated income statement of the Company and the consolidated entity for the year ended 30 June 2005 are set out on the following pages.

40. EXPLANATION OF THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Part A: AIFRS adjustments in the comparative period (Continued)

Table 1: Restated Balance Sheets at 1 July 2004 and 30 June 2005

		Consolidated		Company	
	Note	1 July 2004 $m	30 June 2005 $m	1 July 2004 $m	30 June 2005 $m
Total assets under previous GAAP		3,964	4,807	3,489	4,006
AIFRS transition impacts - remeasurement:					
Deferral of incremental acquisition costs	b	3	4	3	4
Removal of EMVONA	c	(15)	(18)	(15)	(18)
Adjust subsidiary valuation to cost	d	-	-	(4)	(4)
Consolidation of additional managed investment schemes	e	-	12	-	-
Comparative total assets under AIFRS		3,952	4,805	3,473	3,988
Total liabilities under previous GAAP		3,372	3,806	3,239	3,726
AIFRS transition impacts - remeasurement:					
Income tax - impact of UIG 1052	a	2	5	2	5
Decrease in deferred tax liability arising from removal of EMVONA	a	(5)	(5)	(5)	(5)
Decrease in deferred tax liability arising from valuation of subsidiaries to cost	a	(1)	(1)	(1)	(1)
Increase in deferred tax liability arising from deferral of acquisition costs	a	1	1	1	1
Comparative total liabilities under AIFRS		3,369	3,806	3,236	3,726
Comparative net assets under AIFRS		583	999	237	262
Total equity under previous GAAP		592	1,001	250	280
AIFRS transition impacts - contributed equity		-	-	-	-
AIFRS transition impacts - retained earnings		(9)	(11)	(13)	(18)
AIFRS transition impacts - outside equity interests		-	9	-	-
Total comparative equity under AIFRS		583	999	237	262

Table 2: Restated Income Statements for the year ended 30 June 2005

		Year ended 30 June 2005	
	Note	Consolidated $m	Company $m
Net profit as reported under previous GAAP		142	62
AIFRS transition adjustments to retained earnings:			
Difference between tax recharge and tax expense	a	(2)	(2)
Deferral of incremental acquisition costs	b	1	1
Removal of EMVONA	c	(3)	(3)
Adjust subsidiary valuation to cost	d	-	(2)
Consolidation of additional managed investment scheme	e	2	-
Comparative net profit under AIFRS		140	57

40. EXPLANATION OF THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Part A: AIFRS adjustments in the comparative period (Continued)

Table 3: Equity reconciliations at 1 July 2004 and 30 June 2005

A summary of the effect of the above adjustments on equity is set out below.

		Consolidated		Company	
		1 July 2004	30 June 2005	1 July 2004	30 June 2005
	Note	$m	$m	$m	$m
Deferral of incremental acquisition costs		3	4	3	4
Removal of EMVONA		(15)	(18)	(15)	(18)
Adjust subsidiary valuation to cost		-	-	(4)	(4)
Consolidation of additional managed investment schemes		-	12	-	-
Income tax - impact of UIG 1052		(2)	(5)	(2)	(5)
Income tax - impact of other accounting standards		5	5	5	5
Total parent entity interest		(9)	(2)	(13)	(18)
Outside equity interests		-	(9)	-	-
Total equity		(9)	(11)	(13)	(18)

(a) Income tax

Under AIFRS, AASB 112 *Income Taxes* uses a "balance sheet approach" of calculating income tax balances rather than the "Income Statement approach" applied under previous GAAP. The balance sheet approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base.

Impact from adopting AASB 112:

The tax adjustments for the consolidated entity on 1 July 2004 comprise an increase to deferred tax liabilities of $0.8m and an increase in gross policy liabilities of $0.1m, as well as a decrease in unvested policyholder benefits of $0.7m and a decrease in retained earnings of $0.2m. This is due to the prohibition on discounting certain life insurance tax assets and liabilities.

At 30 June 2005, the tax adjustments for the consolidated entity comprise an increase to deferred tax liabilities of $1.3m, as well as a decrease in unvested policyholder benefits of $0.9m and a decrease in retained earnings of $0.4m.

For AIFRS comparative purposes, the impact on the consolidated entity's tax expense is an increase in tax expense of $0.2 million for the year ended 30 June 2005.

The results of the Company are impacted by the same adjustments as the consolidated entity.

Impact from adopting other AIFRS standards:

The impact on the consolidated entity of the change in basis and the transition adjustments required by the application of AIFRS standards other than AASB 112 on the deferred tax balances and the previously reported tax expense is a decrease in deferred tax liabilities of $4.7m and an increase in retained earnings of $4.7m.

The impact of the change in basis on the tax expense for the financial year ended 30 June 2005 for the consolidated entity is a decrease in deferred tax liabilities of $5.8m and an increase in retained earnings of $5.8m.

For AIFRS comparative purposes, the impact on the consolidated entity's tax expense is a decrease of $5.8 million for the year ended 30 June 2005.

The adjustments in respect of the Company are for the same amounts respectively.

40. EXPLANATION OF THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Part A: AIFRS adjustments in the comparative period (Continued)

Impact from adopting UIG 1052:

UIG 1052 *Tax Consolidations Accounting* provides guidance on the recognition of tax amounts under the tax consolidation regime in the AIFRS framework. UIG 1052 requires the consolidated entity to recognise its own tax balances directly, with the current tax liability or asset to be assumed by the head entity via an intercompany loan, equity contribution or distribution, depending on the tax funding arrangements. Historically, the ultimate parent entity recognised all tax balances and charged the consolidated entity an allocation of the current tax liability, based upon the consolidated entity's contribution to the Suncorp Group profit, as an income tax expense in the consolidated entity and an income tax expense recovery in the ultimate parent entity.

In transitioning to AIFRS, the consolidated entity must retrospectively apply UIG 1052 as if it was in place from the time of the consolidated entity's entry into tax consolidation. Accordingly, at 1 July 2004 the consolidated entity is required to restate tax balances in the balance sheets, and any difference between the current tax liability (if calculated ignoring tax consolidation) and what was previously recharged is accounted for in equity.

The impact of UIG 1052 on the consolidated entity at 1 July 2004 is:

- A deferred tax asset of $0.7million and a deferred tax liability of $41 million were recognised;
- Retained earnings decreased by $1.3 million due to the difference between the prior year tax expense and the previous tax expense recharged by the ultimate parent entity; and
- There is no additional impact on contributed equity as the tax recharge under previous GAAP equals the consolidated entity's current tax liability.

The impact of UIG 1052 on the consolidated entity at 30 June 2005 is:

- A deferred tax asset of $0.1 million and a deferred tax liability of $57 million were recognised;
- Retained earnings decreased by $3.8 million due to the difference between tax expense and the tax expense recharged by the ultimate parent entity; and
- There is no additional impact on contributed equity as the tax recharge under previous GAAP equals the consolidated entity's current tax liability.

The balance sheet of the Company is impacted by the same amounts as the consolidated entity.

(b) Revenue recognition, deferral of fee income and acquisition expenses

Under AIFRS, AASB 118 *Revenue* requires that certain fee income and acquisition expenses that were previously recognised in the consolidated income statement are deferred and recognised in the consolidated balance sheet, and amortised to the consolidated income statement over the period of the service or contract term.

On transition to AIFRS at 1 July 2004, the consolidated entity increases other assets by $3.1 million, increases payables and other liabilities by $0.1 million, and increase retained profits by $3 million. At 30 June 2005, further adjustments results in the consolidated entity's assets increasing by an additional $0.9 million, liabilities decreasing by $0.1 million, with an increase in retained earnings of $1.0m.

For AIFRS comparative purposes, operating expenses increase and profit before tax decreases by $1.0 million for the year ended 30 June 2005.

(c) Excess of net market value of interests in life insurance subsidiaries over their recognised amounts ("EMVONA")

Under AGAAP, AASB 1038 *Life Insurance Business* allows a Life Insurer to recognise the excess of net market value of an interest in a subsidiary over the net assets of the subsidiary, as an asset in its consolidated balance sheet and movements in the asset in the income statement. Under AIFRS, revised AASB 1038 *Life Insurance Contracts* in conjunction with AASB 138 *Intangible Assets* does not allow the asset to be recognised in the balance sheet or the movement in the asset to be recognised in the income statement.

40. EXPLANATION OF THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Part A: AIFRS adjustments in the comparative period (Continued)

On transition to AIFRS, the EMVONA asset was written back resulting in a decrease to assets and retained earnings for the consolidated entity of $15.1m at 1 July 2004. The adjustments in respect of the Company are a decrease to assets and retained earnings of $15.1m. For the year ended 30 June 2005, the additional AGAAP EMVONA of $2.9m recognised in the income statement was written back resulting in a decrease in assets of $18.0m and decrease in retained earnings of $18.0m for AIFRS comparative disclosure purposes. The adjustments in respect of the Company are a decrease to assets and retained earnings of $18.0m.

(d) Consolidation of investment in subsidiaries

Under AGAAP, AASB 1038 *Life Insurance Business* requires a Life Insurer to recognise assets at net market value. Any changes in net market values are recognised in the income statement. The revised AASB 1038 *Life Insurance Contracts* in conjunction with AASB 127 *Consolidation and Separate Financial Statements* allows investments in subsidiaries to be accounted for at cost.

On transition to AIFRS at 1 July 2004, the assets of the Company were reduced by $3.8m, and retained earnings were reduced by a corresponding amount. For the year ended 30 June 2005, the additional recognised AGAAP movement in net market value of $1.7m will be written back resulting in a decrease in assets and profit of $5.5m for AIFRS comparative disclosure purposes.

There is no impact on the consolidated entity.

(e) Consolidation of additional managed investment schemes

Under AASB 127 *Consolidated and Separate Financial Statements* the consolidated entity will consolidate managed investments schemes where ownership interest exceeds 75%. It will also consolidate managed investment schemes where ownership in the scheme is between 50% and 75% and the consolidated entity has the ability to control the trust through its position as a responsible entity.

Under AGAAP, managed investment schemes were consolidated into SLSL when ownership interest exceeded 75%

Restated Statements of Cash Flows for the year ended 30 June 2005

AASB 107 *Cash Flow Statements* requires that specific items disclosed as investing or financing cash flows under previous GAAP are now included in the determination of operating cash flows. AIFRS does not alter the net cash increase or decrease, but changes the reported categories of operating, investing or financing cash flows. The was no impact from these reclassifications for the year ended 30 June 2005.

40. EXPLANATION OF THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Part B: AIFRS impacts on 1 July 2005

The impacts of the significant changes in accounting policy from adopting AASB 132, AASB 139, AASB 4, and AASB 1038 from 1 July 2005 are set out below.

Table 4: Restated Balance Sheets at 1 July 2005

	Note	Consolidated $m	Company $m
Total assets under AIFRS at 30 June 2005		4,805	3,988
AIFRS transition impacts - remeasurement:			
Adjustment to valuations of investment assets	i	3	5
Deferred tax asset resulting from adjustment to valuation of insurance	ii	1	1
Deferral of acquisition costs for statutory funds	iii	22	22
Deferred tax asset arising from the deferral of fee income for the statutory funds	iv	2	2
Total assets under AIFRS at 1 July 2005		4,833	4,018
Total liabilities under AIFRS at 30 June 2005		3,806	3,726
AIFRS transition impacts - reclassification:			
Outside beneficial interests and retained earnings	v	729	-
AIFRS transition impacts - remeasurement:			
Deferred tax liability arising from the adjustment to valuation of investment	i	1	1
Increase in unvested policyholder benefits arising from adjustment to valuation of investment assets	i	2	2
Adjustment to valuation of investment contract liabilities and life insurance contract liabilities	ii	47	47
Deferred tax liability arising from the deferral of acquisition costs for the	iii	6	6
Deferral of fee income for statutory funds	iv	7	7
Provision for stamp duty		2	2
Total liabilities under AIFRS at 1 July 2005		4,600	3,791
Net assets under AIFRS at 1 July 2005		233	228
Total equity under previous GAAP at 30 June 2005		1,001	280
AIFRS transition impacts - contributed equity		-	-
AIFRS transition impacts - retained earnings		(37)	(52)
AIFRS transition impacts - outside equity interests		(731)	-
Total equity under AIFRS at 1 July 2005		233	228

(i) Financial instrument measurement

Under AIFRS, AASB 139 requires that financial assets classified as at fair value through profit and loss be measured at bid price, rather than at mid price with an allowance for selling costs as required under previous GAAP. On 1 July 2005, this change in measurement basis resulted in an increase to the consolidated entity's investment securities of $3.1 million (Company: $5.1 million) and retained earnings of $0.3 million (Company: $2.3 million), as well as an increase to unvested policyholder benefits of $1.9 million (Company: $1.9 million) and an increase to deferred tax liabilities of $0.9 million (Company: $0.9 million).

40. EXPLANATION OF THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Part B: AIFRS impacts on 1 July 2005 (Continued)

(ii) Valuation of investment contract and life insurance contract liabilities

Under AIFRS there are a number of adjustments required to the valuations of investment contract and life insurance contract liabilities due to the following:

- Under AGAAP, AASB 1038 *Life Insurance Business* deals with the accounting for a life insurance business. Under AIFRS, revised AASB 1038 *Life Insurance Contracts* designates products into either life insurance contracts or life investment contracts. The consolidated entity has life insurance products that are designated as insurance and investment contracts.

  Products that meet the definition of a life insurance contract will continue to use the Margin on Services valuation for policy liabilities under revised AASB 1038. Products that meet the definition of a life investment contact have two components, a financial instrument element and a management services element.

- Where the asset value and related tax changes described in (i) above relate to investment contracts, there is a corresponding change in the valuation of the investment contract and life insurance contract liabilities.

- Under AGAAP, the discount rate applied in the valuation of the investment contract and life insurance contract liabilities was based on the expected market return on investments that backed those contracts. Under AIFRS, where investment contract and life insurance contract liabilities are not linked to the performance of investments that back those contracts, a risk-free discount rate must be used. The risk-free discount rate is determined by the Appointed Actuary based on the Commonwealth government bond rate.

- Under AGAAP, the deferred tax liability in the life statutory funds was required to be discounted to present value. Under AIFRS, deferred tax balances cannot be discounted and the deferred tax balance has been adjusted. The measurement of life insurance contract liabilities has also been adjusted under AIFRS to reflect the undiscounted deferred tax amounts. However the impact of the removal of deferred tax discounting in respect of investment contracts is not reflected in investment contract liabilities.

- Under AGAAP deferred acquisition costs was included in policy liabilities. Under AIFRS deferred acquisition costs are reported on the face of the balance sheets. Refer (iii) below for impact.

On 1 July 2005, these changes resulted in an increase to the consolidated entity's policy liabilities of $46.5 million, an increase to deferred tax asset of $0.9 million and a decrease to retained earnings of $45.6 million. The adjustments for the Company are the same as for the consolidated entity.

(iii) Deferral of acquisition costs on investment contracts

Under AGAAP, all acquisition costs incurred in relation to acquiring new life insurance policies were deferred as part of investment contract and life insurance contract liabilities and subsequently recognised in the income statements over the life of the contract.

Under AIFRS, the treatment differs for those contracts that are designated as investment contracts. Under AIFRS, acquisition costs arising in relation to investment contracts can only be deferred to the extent they are incremental and directly attributed to securing the individual contracts. Otherwise costs are recognised and expensed as they are incurred. There is no change in the recognition and measurement of deferred acquisition costs on life insurance contracts.

On 1 July 2005, this change resulted in an increase to the consolidated entity's deferred acquisition costs asset of $21.8 million, an increase to deferred tax liability of $6.5 million and an increase to retained earnings of $15.3 million. The adjustments for the Company are the same as for the consolidated entity.

(iv) Deferral of fee income on investment contracts

Under AIFRS, the management services element of investment contracts is recognised as revenue under AASB 118 *Revenue*, with certain fee income being deferred and recognised as a liability on the balance sheet.

On 1 July 2005, this change resulted in an increase to the consolidated entity's deferred revenue liability of $6.9 million, and increase to deferred tax asset of $2 million and a decrease to retained earnings of $4.9 million. The adjustments for the Company are the same as for the consolidated entity.

40. EXPLANATION OF THE TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Part B: AIFRS impacts on 1 July 2005 (Continued)

(v) Balance sheet reclassification

On 1 July 2005, the application of AASB 132 requires certain assets and liabilities be reclassified to balance sheet categories that are different from previous GAAP. Under AGAAP, the amounts due to unitholders in the underlying financial statements of a unit trust were classified as outside equity interests. Under AIFRS, this amount is classified as a liability owing to outside beneficial interests. When a controlled unit trust is consolidated under AIFRS, amounts previously recorded as outside equity interests to external equity holders of the trust are now included as a liability in the consolidated balance sheet.

The significant reclassification for the consolidated entity in addition to the adjustments above is to increase payables and other liabilities by $729 million and to decrease outside equity interests by $731 million and increase retained earnings by $2 million.

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

(a) the financial statements and notes, set out on pages 6 to 72, are in accordance with the Corporations Act 2001, including:

i. giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of the Directors.

John D Story
Chairman

John F Mulcahy
Managing Director

Brisbane
1 September 2006

In accordance with the requirements of the Life Insurance Act 1995 ("the Life Act"), I state that in my opinion.

(a) the value of the policy liabilities and the solvency of Suncorp Life & Superannuation Limited ("the Company") have been determined using methods and assumptions consistent with the Actuarial Standards;

(b) the allocation and distribution of the profits of the statutory funds of the Company have been made in accordance with Division 5 and 6 of Part 4 of the Life Act and the Constitution of the Company; and

(c) proper records have been kept by the Company from which its policy liabilities and solvency have been able to be properly determined.

Rowan T Ward
Appointed Actuary
Suncorp Life & Superannuation Limited

Brisbane
1 September 2006

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SUNCORP LIFE & SUPERANNUATION LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration set out on pages 6 to 73 for both Suncorp Life & Superannuation Limited ("the Company") and Suncorp Life & Superannuation Limited and its controlled entities (the "Consolidated Entity"), for the year ended 30 June 2006. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards.*

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

KPMG

Audit opinion

In our opinion, the financial report of Suncorp Life & Superannuation Limited is in accordance with:

a) the *Corporations Act 2001*, including:

i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and

ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

KPMG
KPMG

Greig
Brian Greig
Partner

Brisbane
1 September 2006