Suncorp Life & Superannuation Limited

ABN: 87 073 979 530

Financial Report - 30 June 2012

Contents

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

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

A description of the nature of the Company's operations and its principal activities is included in the Directors' Report on pages 1 to 3, which is not part of the financial report.

Your directors present their report together with the financial report for Suncorp Life & Superannuation Limited ("the Company") for the year ended 30 June 2012.

Directors

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

Non-executive

Dr Zygmunt E Switkowski (Chairman)	Director since 2005, appointed Chairman 27 October 2011
Ilana R Atlas	Director since 2011
William J Bartlett	Director since 2003
Michael A Cameron	Director appointed 16 April 2012
Paula J Dwyer	Resigned 28 February 2012
Audette E Exel	Director appointed 27 June 2012
Stuart I Grimshaw	Resigned 23 August 2011
Ewoud J Kulk	Director since 2007
Dr Douglas F McTaggart	Director appointed 16 April 2012
Geoffrey T Ricketts	Director since 2007
John D Story	Retired 27 October 2011

Executive

Patrick J R Snowball (Managing Director)	Director since 2009

Principal activities

The principal activities of the Company during the course of the year were the provision of life insurance, superannuation and investment products and related services to the retail, corporate and commercial sectors. On 1 January 2012, the Company amalgamated the Life business of an associated company, Asteron Life Limited (ALL) into its own operations pursuant to a scheme under Part 9 of the *Life Insurance Act 1995*. As a result, the financial report has been prepared on the basis that profits for the ex-ALL business for the first 6 months of the financial year are included in retained earnings which form part of the net asset transfer under Part 9. There were no other significant changes in the nature of the activities carried out by the Company during the year.

Operating and financial review

Overview of the Company

The operating profit after income tax for the year was $136.9 million (2011: $39.9 million). Falling yields led to strongly favourable policy liability valuation movements which coupled with improved claims and lapse experience contributed to the result.

Total premium revenue for the year was $391.2 million (2011: $200.8 million).

Investment earnings on shareholders' capital and retained earnings (statutory fund) net of applicable income tax was $42.4 million (2011: $18.8 million).

Emergence of insurance contract planned profit margins net of applicable income tax was $55.0 million (2011: $26.3 million).

The financial strength of our business is reflected by the coverage of the Solvency Reserve, based on the Solvency Requirement as prescribed by APRA's Prudential Standard LPS 2.04. The coverage of the Solvency Reserve for the statutory funds of 2.8 times (2011: 2.8 times) has been maintained throughout the year.

Operating and financial review (continued)

Significant changes in state of affairs

Part 9 amalgamation of Life insurance business

On 14 December 2011 the Federal Court of Australia approved the Scheme to transfer the Asteron Life Limited (ALL) insurance business to the Company. The transfer occurred on 1 January 2012, resulting in ALL policies being transferred from the Statutory Funds of ALL to the relevant Statutory Funds of the Company.

Details of Equity transferred from ALL to the Company is set out below.

SLSL	Statutory Fund 1 $m	Statutory Fund 2 $m	Shareholder's Fund $m	Total $m
1 January 2012				
Transfer under the Scheme				
Share Capital	435.4	15.9	-	451.3
Retained Earnings	770.3	21.4	-	791.7
Total equity transferred under the Scheme	**1,205.7**	**37.3**	**-**	**1,243.0**

Environmental regulation

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

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

Dividends

During the year the directors recommended and paid two interim dividends of $0.170 per ordinary share (2011: $0.129), amounting to $20.0 million (2011: $5.0 million) and $0.213 per ordinary share (2011: $0.694), amounting to $25.0 million (2011: $27.0 million). Further details of dividends paid are set out in note 21 to the financial report.

Since the end of the financial year the directors have not recommended the payment of a final dividend (2011:$nil).

Events subsequent to reporting date

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

Likely developments

Other developments

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

Indemnification and insurance of officers

Indemnification

Under the ultimate parent entity's Constitution, the ultimate parent entity, Suncorp Group Limited 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, except where the liability arises out of conduct involving a lack of good faith. The Constitution stipulates that the ultimate parent entity will meet the full amount of such liabilities, including costs and expenses incurred in successfully defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under the *Corporations Act 2001*.

Insurance premiums

During the financial year ended 30 June 2012, the ultimate parent entity Suncorp Group Limited 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 such disclosure is prohibited under the terms of the contract.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the year ended 30 June 2012.

Rounding off

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

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

Z. E. Switkowski

Dr Zygmunt E Switkowski
Director

Patrick J R Snowball
Managing Director

22 August 2012

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 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul Reid
Partner

Sydney

22 August 2012

Suncorp Life & Superannuation Limited

ABN 87 073 979 530

Financial report

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	Note	2012 $m	2011 $m
Assets			
Cash and cash equivalents	**13**	666.0	385.6
Outstanding premiums		13.3	12.1
Other financial assets			
Equity security investments	**14**	3,028.1	1,508.3
Debt security investments	**14**	2,972.4	1,836.2
Property investments	**14**	181.1	209.8
Other investments	**14**	6.7	2.3
Receivables	**15**	158.3	132.4
Gross policy liabilities ceded under reinsurance	**19(d)**	431.3	78.3
Deferred acquisition costs	**16**	2.3	3.7
Deferred tax assets	**12**	21.7	9.5
Other assets		0.1	0.1
Total assets		**7,481.3**	**4,178.3**
Liabilities			
Payables	**17**	319.0	117.2
Premiums in advance		8.2	3.1
Deposits and short term borrowings	**18**	12.0	4.7
Gross life insurance contract liabilities	**19(b)**	1,829.5	1,857.7
Gross life investment contract liabilities	**19(c)**	3,218.7	1,498.3
Unvested policyowner benefits liability	**19(e)**	360.7	365.5
Total liabilities		**5,748.1**	**3,846.5**
Net assets		**1,733.2**	**331.8**
Equity			
Share capital	**20**	556.7	38.9
Retained earnings		1,176.5	292.9
Total equity		**1,733.2**	**331.8**

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

	Note	2012 $m	2011 $m
Revenue			
Premium revenue	6	391.2	200.8
Less: Outwards reinsurance expense		(80.1)	(46.4)
Net premium revenue		311.1	154.4
Investment revenue	7	224.7	337.4
Other revenue	8	1.4	4.6
Net revenue		537.2	496.4
Claims and expenses			
Claims expense	9	(317.8)	(174.9)
Less: Reinsurance recoveries revenue	8	103.3	45.6
Net claims expense		(214.5)	(129.3)
Operating expenses	10	(195.6)	(54.0)
Decrease/(Increase) in net insurance contract liabilities	19(b),(d)	128.8	(133.2)
Increase in investment contract liabilities	19(c)	(84.1)	(114.9)
Decrease in unvested policyowner benefits liabilities	19(e)	4.7	21.0
Net claims and expenses		(360.7)	(410.4)
Profit before tax		176.5	86.0
Income tax expense	12(a)	(39.6)	(46.1)
Profit for the financial year		136.9	39.9
Other comprehensive income for the financial year		-	-
Total comprehensive income for the financial year attributable to the members of Suncorp Life & Superannuation Limited		**136.9**	**39.9**

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

	Note	Share capital $m	Retained earnings $m	Total equity $m
Balance at 1 July 2010		38.9	315.0	353.9
Total comprehensive income				
Profit for the financial year		-	39.9	39.9
Other comprehensive income		-	-	-
Total comprehensive income		**-**	**39.9**	**39.9**
Transactions with owners, recorded directly in equity				
Contribution by and distribution to owners:				
Dividends to shareholders	**21**	-	(62.0)	(62.0)
Balance at 30 June 2011 / 1 July 2011		**38.9**	**292.9**	**331.8**
Profit for the financial year		-	136.9	136.9
Other comprehensive income		-	-	-
Total comprehensive income		-	136.9	136.9
Transactions with owners, recorded directly in equity				
Contribution by and distribution to owners:				
Capital Injection	**20**	71.5	-	71.5
Capital Redemption	**20**	(5.0)	-	(5.0)
Part 9 Equity Transfer	**20;33(c)**	451.3	791.7	1,243.0
Dividends to shareholders	**21**	-	(45.0)	(45.0)
Balance at 30 June 2012		**556.7**	**1,176.5**	**1,733.2**

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

	Note	2012 $m	2011 $m
Cash flows from operating activities			
Premiums received		1,109.2	441.9
Fee income received		1.4	4.6
Reinsurance premiums paid		(45.3)	(46.9)
Claims payments under policies		(1,201.4)	(594.2)
Reinsurance and other recoveries received		113.4	38.3
Operating expenses paid		(220.4)	(94.7)
Interest received		190.0	91.7
Dividends received		221.6	69.1
Property income received		10.5	21.5
Other investments received		0.1	20.9
Tax paid		(3.7)	(8.5)
Net cash inflow/ (outflow) from operating activities	**22**	**175.4**	**(56.3)**
Cash flows from investing activities			
Purchases of financial assets		(6,970.9)	(2,495.1)
Proceeds from sale of investments		7,100.0	2,603.0
Net movement in loans		(51.4)	31.9
Net cash inflow from investing activities		**77.7**	**139.8**
Cash flows from financing activities			
Net increase in share capital	**20**	66.5	-
Net increase in deposits and other borrowings		5.8	(5.0)
Dividends paid		(45.0)	(35.0)
Net cash inflow/ (outflow) from financing activities		**27.3**	**(40.0)**
Net increase in cash and cash equivalents		280.4	43.5
Cash and cash equivalents at 1 July		385.6	342.1
Cash and cash equivalents at 30 June	**13**	**666.0**	**385.6**

The above statement of cash flows is to be read in conjunction with the accompanying notes.

1. Basis of preparation

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

The financial statements were authorised for issue by the Board of Directors on 22 August 2012.

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

The financial statements have been prepared on the historical cost basis unless the application of fair value measurements is required by relevant accounting standards.

Significant accounting policies applied in the preparation of these financial statements are set out in note 2.

The risk management objectives and structure including the risk management of exposure arising from financial instruments are detailed in note 4.

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

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

As the Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, all financial information presented in Australian dollars has been rounded to the nearest one hundred thousand unless otherwise stated.

1.1. Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial statements of the Company comply with the International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The exemption from consolidation in accordance with AASB 127 Consolidated and Separate Financial Statements has been applied for the year ended 30 June 2012. The consolidated financial statements of the ultimate parent entity, Suncorp Group Limited, a company domiciled in Australia, are available from the ultimate parent entity's registered office, being Level 18, 36 Wickham Terrace, Brisbane, QLD 4000.

1.2. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Where revisions are made to accounting estimates, any financial impact may be recognised in the period in which the estimate is revised. Significant estimates, judgements and assumptions are discussed in the following notes:

- Net policy liabilities in note 3
- Valuation of financial instruments and fair value hierarchy disclosures in note 4.

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

2. Significant accounting policies

The significant accounting policies set out below have been consistently applied to all periods presented in these financial statements.

Under the *Life Insurance Act 1995 (Life Act)*, Life business is conducted within one or more separate statutory funds, which are distinguished from each other and from the shareholder funds. The assets of the Life business are allocated between the policyowners and shareholder funds with all assets, liabilities, revenues and expenses recognised in the financial statements, irrespective of whether they are policyowner or shareholder owned.

The shareholder's entitlement to monies held in the statutory funds is subject to the distribution and transfer restrictions and other requirements of the *Life Act* and the Company's constitution. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions.

Participating policyowners can receive a distribution when solvency requirements are met, while shareholders can only receive a distribution when the higher level of capital adequacy requirements is met.

2.1. Foreign currency

Foreign currency transactions

Transactions denominated in foreign currencies are translated into the functional currency of the operation using the spot exchange rates at the date of the transaction. Foreign currency monetary assets and liabilities at balance date are translated into the functional currency using the spot rates of exchange current on that date. The resulting differences on monetary items are recognised as exchange gains/losses in the financial year in which the exchange rates difference arises. Foreign currency non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rates at the date of the transaction. Foreign currency non-monetary assets and liabilities that are stated at fair value are translated using exchange rates at the dates the fair value was determined.

2.2. Revenue and expense recognition

(a) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method.

(b) Dividends and distribution income

Dividends and distribution income are recognised when the right to receive income is established.

(c) Fair value gains and losses

Fair value gains and losses from financial assets and liabilities at fair value through profit or loss are recognised as they occur.

2. Significant accounting policies (continued)

2.2. Revenue and expense recognition (continued)

(d) Premium revenue

Premium revenue relates to risk bearing life insurance contracts. The components of premium that relate to life investment contracts are in the nature of deposits and are recognised as a movement in policy liabilities.

Life insurance premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised on an accruals basis.

(e) Fees and other revenue

Fee revenue is recognised as services are provided. The entry fee in relation to life investment contracts is deferred and recognised over the average expected life of the investment contract. The revenue that can be attributed to the origination service is recognised at inception.

(f) Claims expense

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

The component of a life insurance contract claim that relates to the bearing of risks is treated as a claim expense. Other life insurance claim amounts and all life investment contract amounts paid to policyowners are in the nature of withdrawals and are recognised as a decrease in policy liabilities.

(g) Outwards reinsurance expense

Premium ceded to reinsurers is recognised by the Suncorp Group as outwards reinsurance premium expense in profit or loss from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. A portion of outwards reinsurance premium is recognised as a deferred reinsurance asset at reporting date.

(h) Life insurance reinsurance and other recoveries revenue

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

(i) Basis of expense apportionment

Life insurance expenditure has been apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Act.* The expense apportionment basis is in line with the principles set out in APRA Prudential Standard LPS 1.04 *Valuation of Policy Liabilities*.

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

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

2. Significant accounting policies (continued)

2.3. Income tax

Income tax expense comprises current and deferred tax and is recognised in the profit or loss except to the extent it relates to items recognised in equity or in other comprehensive income. 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.

Current tax consists of the expected tax payable on the taxable income for the year, after any adjustments in respect of previous years, using tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred 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.

In determining the amount of current and deferred tax, the Suncorp Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Suncorp Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Suncorp Group to change its judgements regarding the adequacy of existing tax liabilities. Such changes to tax liabilities may impact tax expense in the financial period that such a determination is made.

For presentation purposes, deferred tax assets and deferred tax liabilities have been offset if there is a legally enforceable right to offset current tax assets and liabilities and where they relate to income taxes levied by the same taxation authority on the same taxable entity.

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

Tax consolidation

As at 30 June 2012, the Company is a wholly-owned entity in a tax consolidated group, with Suncorp Group Limited as the head entity.

The Company recognises the current and deferred tax amounts applicable to the transactions undertaken by it, reasonably adjusted for certain intra group transactions, as if it continued to be a separate taxpayer. The head entity recognises the entire tax-consolidated group’s current tax liability. Any differences, per subsidiary, between the current tax liability and any tax funding arrangement amounts (see below) are recognised by the head entity as an equity contribution to or distribution from the subsidiary.

The head entity, in conjunction with members of the tax-consolidated group, has entered into a tax sharing agreement and a tax funding agreement. The tax funding agreement requires wholly-owned subsidiaries to make contributions to the head entity for current tax liabilities arising from external transactions. The contributions are calculated as if the subsidiary was a separate taxpayer, reasonably adjusted for certain intra group transactions. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities, at call.

Members of the tax 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 respect of this component of the agreement as this outcome is considered remote.

2. Significant accounting policies (continued)

2.4. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST, except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or the amount of expense.

Receivables, payables and the provision for outstanding claims are stated with the amount of GST included.

2.5. Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on deposit, highly liquid short-term investments and money at short call. They are measured at face value or the gross value of the outstanding balance which is considered a reasonable approximation of fair value. Bank overdrafts are shown within financial liabilities unless there is a right of offset.

2.6. Non-derivative financial assets

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are classified as either held for trading or are designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. They are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Transaction costs are recognised in the profit or loss as incurred. The assets are measured at fair value each reporting date based on the quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used. Movements in the fair value are taken immediately to the profit or loss. The Company's financial assets at fair value through profit or loss within its statutory funds include trading securities and investment securities and receivables.

(b) Loans and other receivables

Loans and other receivables within the shareholders' fund are financial assets with fixed and determinable payments that are not quoted in an active market. They are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost less any accumulated impairment losses.

(c) Derecognition of financial assets

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

2.7. Derivative financial instruments

The Company holds derivative financial instruments to economically hedge the Company's assets and liabilities or as part of the Company's trading and investment activities. Derivates include foreign exchange contracts, forward rate agreements and interest rate, currency and equity swaps.

All derivatives are initially recognised at fair value on trade date and transaction costs are recognised in profit or loss as incurred. Fair values are determined from quoted market prices where available, or else discounted cash flow models, broker and dealer price quotations or option pricing models as appropriate.

Derivatives are used by the Company to manage interest rate, foreign exchange and equity price risk. They are also used to a limited degree within the insurance investment portfolios where it is more efficient to use derivatives rather than physical securities in managing investment portfolios. The use of derivatives is consistent with the objectives of the overall investment strategies of the investment portfolios, and is one of the means by which these strategies are implemented.

The Risk Management Statements (Statements) establish the basis on which derivatives may be used within the investment portfolios. The preparation and enforcement of these Statements is a critical requirement for licensed insurers.

2. Significant accounting policies (continued)

2.7 Derivative financial instruments (continued)

Derivatives will only be used by the Company for the reasons of efficiency, arbitrage and risk reduction. The Statements and investment mandates specifically prohibit the use of derivatives for speculative purposes or for leveraged trading. Leverage here is defined as creating a portfolio which would have sensitivity to an underlying economic or financial variable which is greater than could be achieved using only physical securities.

Exposure limits have been established with respect to the various asset classes. Within each asset class, derivative exposure limits are identified in the Statements and limits have been established on daily transaction levels. For over the counter (OTC) derivatives, authorised counterparties must have a minimum credit rating equivalent to a Standard & Poor's rating of 'A'.

The investment manager has an independent Risk Manager responsible for monitoring these positions to ensure they do not exceed the authorities established in the investment mandate.

The use of derivatives to mitigate market risk, interest rate risk and currency risk includes the use of exchange traded bills and bond futures, equity index futures, OTC forward foreign exchange contracts and interest rate and equity options. To prevent derivatives being used as a source of gearing, all derivatives have to be wholly or partly cash covered depending on the type of risk undertaken. Derivative restrictions are designed to either prevent gearing or to cover unrealised and potential losses on all derivatives to guard against potential liquidity short falls. Counterparty risk procedures are in place for OTC type derivatives.

Embedded derivatives

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

2.8. Financial assets backing life insurance and life investment liabilities

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

2.9. Financial assets not backing life insurance and life investment liabilities

Financial assets held within the shareholder funds do not back life insurance liabilities or life investment liabilities and include investment securities and receivables. Investment securities are designated as fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy. Receivables are measured at amortised cost less accumulated impairment losses.

2.10. Deferred acquisition costs

Life insurance contracts – deferred acquisition costs include the fixed and variable costs of acquiring new business and include commissions, certain advertising and underwriting costs. These costs are implicitly deferred through Margin on Service (MoS) accounting. The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative.

Life investment contracts – deferred acquisition costs include the variable costs of acquiring new business and include commission costs. They are amortised in accordance with the expected earning pattern of the associated revenue.

All other acquisition costs are expensed as incurred.

2. Significant accounting policies (continued)

2.11. Impairment

Financial assets

Financial assets, other than those measured at fair value through profit or loss, are assessed each reporting date to determine whether there is any objective evidence of impairment. If impairment has occurred, the carrying amount of the asset is written down to its estimated recoverable amount.

An impairment loss is recognised in respect of loans and other receivables measured at amortised cost when the carrying amount of the asset exceeds the present value of its estimated discounted future cash flows calculated based on the asset's original effective interest rate. When impairment losses are recognised, the carrying amount of the relevant asset or group of assets is reduced by the balance of the provision for impairment. If a subsequent event causes the amount of the impairment loss to decrease, the impairment loss is reversed through profit or loss.

The amount necessary to bring the impairment provisions to their assessed levels, after write-offs, is charged to profit or loss. All known bad debts are written off in the period in which they are identified. Where not previously provided for, they are written off directly to profit or loss.

2.12. Non-derivative financial liabilities

There are two categories of non-derivative financial liabilities: financial liabilities at fair value through profit or loss and financial liabilities carried at amortised cost. Accounting policies and descriptions of each category are detailed below.

(a) Financial liabilities at fair value through profit or loss

These liabilities are classified as either held for trading or those that are designated upon initial recognition. Liabilities are initially recognised on trade date at fair value with any directly attributable transaction costs recognised in profit or loss as incurred. Fair value is determined using the offer price where available. Movements in the fair value are recognised in the profit or loss. The Company designates the deposits and borrowings of the statutory funds as being at fair value through profit or loss.

(b) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are initially measured at fair value plus any directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. The Company has designated the deposits and borrowings of the shareholders' fund and Company as being financial liabilities at amortised cost.

(c) Derecognition of financial liabilities

Non-derivative liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.

2. Significant accounting policies (continued)

2.13. Policy liabilities

(a) Life Insurance contracts

Life insurance contract liabilities are calculated using the Margin on Services (MoS) methodology. Under MoS, the excess of premium received over expected claims and expenses is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyowner.

The projection method is generally used to determine life insurance contract liabilities. The net present value of projected cash flows is calculated 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. Otherwise, a risk-free discount rate is used. The risk-free rate allows for illiquidity observed in the nature of liabilities.

Where the accumulation method has been used, 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. Where used, the accumulation basis is considered to be a reasonable approximation of liabilities had they been determined on a projection basis.

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

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

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

(b) Life investment contracts

A life investment contract involves both the origination of a financial instrument and the provision of investment management services. Policy liabilities are measured at the fair value of the financial instrument component of the contract (designated as fair value through profit or loss) plus the liability in respect of the management services element. The management services element, including associated acquisition costs, is recognised as revenue as services are performed.

For investment-linked products, the life investment contract liability is directly linked to the performance and value of the assets that back them and is determined as the fair value of those assets after tax. For fixed income policies, the liability is determined as the net present value of expected cash flows, subject to a minimum of current surrender value.

(c) Liability adequacy test

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

2.14. Share capital

Ordinary shares are classified as equity.

(a) Dividends

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

2. Significant accounting policies (continued)

2.15. Contingent liabilities and contingent assets

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

Contingent assets are not recognised but are disclosed in the financial statements 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.

2.16. Accounting standards and interpretations issued but not yet effective

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

- AASB 13 *Fair Value Measurement* provides a definition of the term, "fair value", and introduced additional disclosure requirements. This is applicable for all assets and liabilities measured at fair value, including non-financial assets and liabilities. This standard becomes mandatory for the Company's 30 June 2014 financial statements. The Company has not yet determined the potential effect of the new standard.
- AASB 9 *Financial Instruments* was issued and will eventually replace AASB 139 *Financial Instruments: Recognition and Measurements*. It introduced changes in the classification and measurement of financial assets and financial liabilities. This standard becomes mandatory for the Company's 30 June 2016 financial statements. The Company has not yet determined the potential effect of the new standard.

Other new standards, amendments to standards effective for annual reporting periods after 1 July 2012 that have not yet been early adopted, are not expected to have a significant impact to the Company.

3. Net policy liabilities

3.1. Life liability estimation process

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

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

Life insurance contract liabilities 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.

Actuarial reports with an effective date of 30 June 2012 were prepared in relation to policy liabilities and solvency reserves. All reports indicated that the Appointed/Company Actuaries are satisfied as to the accuracy of the data upon which policy liabilities have been determined. The actuarial reports for the Company were prepared by Mr Rob Desoisa, Appointed Actuary BSc (Hons) FIAA.

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

Business type	Method	Profit carrier
Individual		
Conventional	Projection	Participating business – bonuses Non-participating business – expected claim payments
Investment account	Projection	Interest credits
Accidental cash back	Projection	Expected payments
Allocated pension	Projection	Interest credits
Lump sum risk	Projection	Expected premium
Disability income risk	Projection	Expected claim payments
Annuity	Projection	Annuity payments
Group		
Investment account	Projection	Interest credits
Disability income risk	Projection	Expected claim payments
Lump sum risk	Projection	Expected claim payments

3. Net policy liabilities (continued)

3.2. Actuarial assumptions, judgements and estimates used in calculating policy liabilities

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

The following table sets out key factors affecting the determination of the policy liabilities and the critical assumptions and judgements made.

On 1 January 2012, the life insurance business of ALL was transferred into SLSL. The following section includes changes to the assumptions of ALL business over the last 12 months, separately noted.

Assumption	Basis of assumption	Significant changes since 2011
Investment earnings – participating business	Assumed earning rates are determined having regard to the asset mix of the investment portfolio backing the benefits, the assumed earning rates for each sector, market conditions at the valuation date and tax on investment earnings appropriate to the class of business and asset sector. See rates in the following table.	No change in approach.
Investment earnings – non-participating business	All non-participating business uses an investment earnings and discount rate assumption of the risk-free rate. For the Company this has been determined from the government bond curve. See rates in the following table.	No change in approach.
Maintenance expenses	Per policy expense rates are based upon expected costs to service existing contracts in the period following the reporting date. Expense rates vary by product line and class of business.	No change in approach.
Inflation	The inflation rate assumed takes into account the difference between the long-term government bonds and indexed government bonds for Australia. 2.5% (2011: 3.0%)	Decreased by 0.5%.
Benefit indexation	Where future benefits increase in line with inflation, the relevant country's assumed inflation rate is used.	None.
Expense indexation	Future renewal expenses are assumed to increase by 3.0%, this is 0.5% higher than the inflation rate used for other purposes. 3.0% (2011: 3.0%)	None.
Voluntary discontinuance	Rates are based upon recent internal investigations. Rates may vary by product, class of business, policy value, age and duration in force. Allowance is also made for cash withdrawals. See rates in the following table.	Moderate increases for risk business having regard to recent experience.
Surrender values	Surrender values are determined by applying the surrender bases current at the reporting date.	None.
Rates of taxation	The rates of taxation assumed are based on current income tax legislation applicable to the type of product.	None.
Mortality – individual risk products	Mortality rates for risk products have been determined using the standard mortality table (IA95-97) which was developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997. The Company adjustments are pre smoker/non-smoker allowance. See adjustment rates in the following table.	None.

3. Net policy liabilities (continued)

3.2. Actuarial assumptions, judgements and estimates used in calculating policy liabilities (continued)

Assumption	Basis of assumption	Significant changes since 2011
Mortality – annuitants	Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments for assumed future age-related improvements. Tables IM/IF80 were developed by the Institute of Actuaries and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982. See following table for applicable adjustment rates. Adjustments applied to the 60% factors from a base year of 1996.	None.
Morbidity - lump sum	Disability rates on lump sum Total and Permanent Disablement (TPD) policies have been based on industry and population experience with adjustments to reflect experience. For trauma policies, assumed incidence rates are based on Australian population statistics with adjustments to reflect Suncorp Life & Superannuation Limited's experience and policy conditions.	Moderate increases to trauma and TPD assumptions for risk business pertaining to ALL portion of Part 9 transfer having regard to recent experience.
Disability – income	Disability rates on income policies have been determined using the IAD89-93 table with adjustments to reflect experience. IAD89-93 was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993.	Moderate increases to incidence rates, and moderate decreases to termination rates having regard to recent experience.
Group lump sum	Claim rates are set as a proportion of premiums net of commission and stamp duty. Assumed claims cost as a proportion of premiums have been increased having regards to observed experience.	None.
Group disability Income	Claim rates are set as a proportion of premiums net of commission and stamp duty. Claim termination rates are determined using CIDA85 with adjustments to reflect the Company's experience.	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 cash flows equals the value of assets supporting the business. For participating whole of life and endowment business, the Company's policy is to set bonus rates such that, over long periods, the returns to policyowners (as a group, but not necessarily individually) are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. For participating investment account business, crediting rates are set such that over long periods policyowners (as a group, but not necessarily individually) receive full investment earnings on their accounts less a deduction of explicit fees and charges. Distributions are split between policyowners and shareholder with the valuation allowing for the shareholder to share in distributions at the maximum allowable rate of 20%.	No change in approach.

3. Net policy liabilities (continued)

3.2 Actuarial assumptions, judgements and estimates used in calculating policy liabilities (continued)

Assumption	2012 %	2011 %
Investment earnings pre-tax for participating business	4.3 – 5.3	6.5 – 7.6
Investment earnings pre-tax for non-participating business	2.3 – 4.4	4.7 – 6.1
Voluntary discontinuance	3 – 30	4 – 30
Mortality – individual risk products adjustment.	59 – 170	70 – 170
Mortality – annuitants (M = Male, F = Female)	M = 60 F = 60	M = 60 F = 60
Future improvements in mortality – annuitants	97.3	97.3

3.3. Other requirements

The *Life Act* requires companies to meet prudential standards of solvency. The solvency requirements are determined in accordance with APRA Prudential Standard LPS 2.04 *Solvency Standard*, as required under the *Life Act*. For the purposes of note 27, minimum termination values have been determined in accordance with APRA Prudential Standards LPS 4.02 *Minimum Surrender Values and Paid Up Values* and LPS 2.04.

3.4. Sensitivity analysis

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

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

3. Net policy liabilities (continued)

3.4 Sensitivity analysis (continued)

The following table illustrates the impact in the current period of changes in key assumptions as at 30 June 2012. The change in liability and profit (loss) are shown net and gross of reinsurance.

Variable	Change (1)	Change in insurance contract liabilities before tax		Profit/(loss) after tax(2)	
		(net) $m	(gross) $m	(net) $m	(gross) $m
Maintenance expenses	+ 10% increase	2.0	2.0	(1.4)	(1.4)
Mortality and lump sum morbidity	+ 10% increase	(3.9)	(4.1)	2.7	2.8
Morbidity – disability income	+ 10% increase in incidence and decrease in recovery rates	124.2	249.7	(86.9)	(174.8)
Discontinuance rates	+ 10% increase	4.8	6.7	(3.4)	(4.7)

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

The table below illustrates the effects of changes in actuarial assumptions from 30 June 2011 to 30 June 2012.

Assumption Category	Effect on future profit margins (shareholder) increase/(decrease) $m	Effect on policy liabilities increase/(decrease) $m
Discount and earning rate (risk business) (1)	-	(126.9)
Discount and earning rate (participating business)	(42.5)	9.9
Mortality and Morbidity	(22.6)	-
Morbidity Income	(21.2)	-
Lapse and surrender rates	(48.7)	-
Indexation take-up rate	-	-
Maintenance expenses	(8.5)	(0.5)
Other changes	(0.8)	-
	(144.3)	(117.5)

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

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

4. Risk management and financial instruments

4.1. Risk management objectives and structure

The Board of Suncorp Group Limited and management recognise that effective risk management is considered to be critical to the achievement of the Suncorp Group Limited and its subsidiaries ("the Group") objectives. The Board Risk Committee has delegated authority from the Board to carry out the oversight of the adequacy and effectiveness of the risk management frameworks and processes within the Group.

An Enterprise Risk Management Framework (ERMF) is in place for the Group. It is subject to an annual review, updated for material changes as they occur and is approved by the Board Risk Committee. The ERMF comprises:

- the Group's risk appetite framework and its link to strategic business and capital plans
- accountabilities and governance arrangements for the management of risk within the Three Lines of Defence model
- the Group's Policy and Compliance Frameworks
- the risk management process.

The Three Lines of Defence model of accountability involves:

Line of Defence	Responsibility of	Accountable for
First – Manage risk and comply with Group frameworks, policies and risk appetite	All business areas (and staff)	• Identifying and managing the risks inherent in their operations • Ensuring compliance with all legal and regulatory requirements and Suncorp Group policies; and • Promptly escalating any significant actual and emerging risks for management attention.
Second – Independent functions own and monitor the application of risk frameworks, and measure and report on risk performance and compliance	All risk functions (Suncorp Group and Line of Business)	• Design, implement and manage the ongoing maintenance of Suncorp Group risk frameworks and related policies • Advise and partner with the business in design and execution of risk frameworks and practices; develop, apply and execute Line of Business risk frameworks that are consistent with Suncorp Group for the respective business areas; and • Facilitate the reporting of the appropriateness and quality of risk management.
Third – Independent assurance over internal controls and risk management practices	Board Audit Committee, internal and external auditors	• Decides the level and extent of independent testing required to verify the efficacy of internal controls • Validates the overall risk framework; and • Provides assurance that the risk management practices are functioning as intended.

The Board of Suncorp Group Limited has delegated authorities and limits to the Group Chief Executive Officer (Group CEO) to manage the business. Management recommends to the Board, and the Board has approved, various frameworks, policies and limits relating to key categories of risk faced by the Suncorp Group within the Group CEO's authorities and limits.

The Senior Leadership Team, comprising the Group CEO, Line of Business CEOs and all Group Executives, provides executive oversight and direction-setting across the Suncorp Group, taking risk considerations into account. The Group Chief Risk Officer, a member of the Senior Leadership Team, is charged with the overall accountability for the Risk Management Framework and overall risk management capability.

The Group has in place a number of Management Committees, each with its own charter, to execute specified responsibilities in the risk framework. The Company has an Asset and Liability Committee to provide effective governance over aspects of the risk framework designed to optimise the long-term returns achieved by asset portfolios within the risk appetite or parameters established by the Board.

The Company, subject to APRA regulation, prepares Risk Management Strategies (RMS) which are approved by the Board and submitted to APRA annually. The RMS describes the strategy adopted by the Board and management for managing risk within the Company, including risk appetite, policies, procedures, management responsibilities and controls.

4. Risk management and financial instruments (continued)

4.1. Risk management objectives and structure (continued)

The key risks addressed by the ERMF are defined below.

Key risks	Definition
Counterparty Risk (Credit risk)	The risk that a counterparty will not meet its obligations in accordance with agreed terms.
Liquidity risk	The risk that the Company will be unable to service its cash flow obligations today or in the future.
Market risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities.
Asset & liability risk	The risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term.
Insurance risk	The risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, concentration risk, reserving, claims management or reinsurance management.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Company may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards.
Strategic risk	The risk of loss arising from uncertainty about the future operating environment, including reputation, industry, economic and regulatory environment, branding, crisis management, and partners and suppliers.

The Company is exposed to mainly the following categories of market risks:

Categories of market risk	Definition
Foreign exchange (FX) risk	The risk of an asset or liability's value changing unfavourably due to changes in currency exchange rates.
Interest rate risk	The risk of loss of current and future earnings and unfavourable movements in the value of interest bearing assets and liabilities from changes in interest rates.
Equity risk	The risk of loss in current and future earnings and unfavourable movement in the value of investment in equity instruments from adverse movements in equity prices.
Credit spread risk	Credit spread is the difference in yield due to difference in credit quality. This is the risk of loss in current and future earnings and unfavourable movement in the value of investments from changes in the credit spread as determined by capital market sentiment or factors affecting all issuers in the market and not necessarily due to factors specific to an individual issuer.

4. Risk management and financial instruments (continued)

4.2. Insurance risk management

4.2.1. Policies for mitigating insurance risk

The risk management activities include prudent underwriting, pricing, acceptance and management of risk, together with claims management and reserving.

The key policies in place to mitigate insurance risk include the following:

- the setting and adherence to underwriting guidelines that determine policies and procedures for acceptance of risk
- the setting of formal claims acceptance limits and the regular review and updating of claims experience data
- the reduction in the concentration of insurance risk through diversification
- the Company enters into reinsurance and ceding arrangements to preserve capital and manage earnings volatility from large individual or catastrophic claims
- the maintenance of appropriate actuarial reserves including reserves to cover claims incurred but not yet reported
- the identification and consistent monitoring against budget projections derived from the actuarial projections models of external variables which impact claims cash flow such as mortality and morbidity experience, claims frequency and persistency
- managing of risk exposures using various analyses and valuation techniques, including stochastic modelling, to calculate the capital required under adverse risk scenarios; and

In addition, the Board receives Financial Condition Reports from the Appointed Actuary who also provides advice in relation to premium and reinsurance arrangements in accordance with APRA Prudential Standards.

Concentration of insurance risk is mitigated through diversification over classes of insurance business, industry segments, the use of reinsurer coverage and ensuring there is an appropriate mixture of individual and group insurance business split between mortality, morbidity and annuity benefit payments.

Exposure to risk of large claims for individual lives is managed through the use of surplus reinsurance arrangements whereby the Company's maximum exposure to any individual life is capped. Concentrations of risk by product type are managed through monitoring of the Company's in-force life insurance business and the mix of new business written each year.

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

4. Risk management and financial instruments (continued)

4.2. Insurance risk management (continued)

4.2.2. Terms and conditions of insurance business

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

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

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

4. Risk management and financial instruments (continued)

4.2. Insurance risk management (continued)

4.2.3. Credit risk

Life is exposed to and manages the following key sources of credit risk.

Key sources of credit risk	How are these managed
Investments in financial instruments	Financial instruments are only dealt with on recognised exchanges and via over the counter contracts. The counterparties to over the counter contracts are limited to companies with primarily investment grade credit ratings from a recognised credit rating agency and are normally banks operating in Australia. Credit management (credit rating and credit limit controls) policies are in place to limit exposure to any one counterparty as a proportion of the investment portfolio.
Reinsurance recoveries	Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with strong credit ratings.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 5.

The following table provides information regarding credit risk exposure of the Company's financial assets, classified according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as non-investment grade.

	Credit Rating							
	AAA $m	AA $m	A $m	BBB $m	Non investment grade $m	Other Not Rated $m	Investment Linked Business Not Rated(1)	Total $m
2012								
Cash and cash equivalents	-	147.1	85.6	8.8	-	-	424.5	666.0
Interest bearing financial assets at fair value through profit or loss	1,249.8	858.2	310.2	48.6	-	20.9	460.0	2,947.7
Loans, advances and other receivables	-	-	-	-	-	191.0	-	191.0
Gross policy liabilities ceded under reinsurance	-	431.3	-	-	-	-	-	431.3
Derivative financial instruments	-	5.3	-	-	-	-	-	5.3
	1,249.8	1,441.9	395.8	57.4	-	211.9	884.5	4,241.3
2011								
Cash and cash equivalents	77.1	2.3	22.5	-	-	-	283.7	385.6
Interest bearing financial assets at fair value through profit or loss	1,031.3	303.4	158.5	14.9	-	-	310.8	1,818.9
Loans, advances and other receivables	-	-	-	-	-	121.7	37.0	158.7
Gross policy liabilities ceded under reinsurance	-	51.0	27.3	-	-	-	-	78.3
Derivative financial instruments	-	-	3.1	-	-	-	-	3.1
	1,108.4	356.7	211.4	14.9	-	121.7	631.5	2,444.6

Notes

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

4. Risk management and financial instruments (continued)

4.2. Insurance risk management (continued)

4.2.3 Credit risk (continued)

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

		Past due but not impaired					
	Neither past due nor impaired $m	0-3 mths $m	3-6 mths $m	6-12 mths $m	>12 mths $m	Impaired $m	Total $m
2012							
Premiums outstanding	-	13.3	-	-	-	-	13.3
Investment revenue receivable	38.5	-	-	-	-	-	38.5
Reinsurance recoveries receivable	53.9	8.2	0.5	1.3	2.2	-	66.1
Gross policy liabilities ceded under reinsurance	431.3	-	-	-	-	-	431.3
Other	53.8	-	-	-	-	-	53.8
	577.5	21.5	0.5	1.3	2.2	-	603.0
2011							
Premiums outstanding	-	12.1	-	-	-	-	12.1
Investment revenue receivable	88.5	-	-	-	-	-	88.5
Reinsurance recoveries receivable	7.7	7.0	3.5	-	-	-	18.2
Gross policy liabilities ceded under reinsurance	78.3	-	-	-	-	-	78.3
Other	25.8	-	-	-	-	-	25.8
	200.3	19.1	3.5	-	-	-	222.9

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

4. Risk management and financial instruments (continued)

4.2. Insurance risk management (continued)

4.2.4. Liquidity risk

To ensure payments are made when they fall due, the Company has the following key facilities and arrangements in place to mitigate liquidity risks:

- investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations
- regularity of premiums received provides substantial liquidity to meet claim payments and associated expenses as they arise; and
- flexibility in investment strategies implemented for investment management to provide sufficient liquidity to meet claim payments as they fall due, based on actuarial assessments.

The following table summarises the maturity profile of the Company's financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for life insurance and life investment contract policy liabilities based on the discounted estimated timing of net cash outflows.

	Carrying amount $m	1 year or less $m	1 to 5 years $m	Over 5 years $m	No term $m	Investment Linked [(1)] $m	Total $m
2012							
Amounts due to reinsurers	39.4	39.4	-	-	-	-	39.4
Trade creditors and accrued expenses	150.9	150.9	-	-	-	-	150.9
Investment settlements	10.2	7.1	-	2.3	-	0.8	10.2
Deposits and short term borrowings	12.0	12.0	-	-	-	-	12.0
Policy claims in process of settlement	118.5	118.5	-	-	-	-	118.5
Premium in advance	8.2	8.2	-	-	-	-	8.2
Insurance contract policy liabilities [(2)]	1,398.2	135.2	604.7	658.3	-	-	1,398.2
Investment contract policy liabilities	3,218.7	2.1	6.7	11.0	-	3,198.9	3,218.7
Unvested policy owner benefits	360.7	-	-	-	360.7	-	360.7
	5,316.8	473.4	611.4	671.6	360.7	3,199.7	5,316.8
2011							
Amounts due to reinsurers	4.6	4.6	-	-	-	-	4.6
Trade creditors and accrued expenses	75.1	75.1	-	-	-	-	75.1
Investment settlements	8.0	6.0	-	-	-	2.0	8.0
Deposits and short term borrowings	4.7	4.7	-	-	-	-	4.7
Policy claims in process of settlement	29.5	29.5	-	-	-	-	29.5
Premium in advance	3.1	3.1	-	-	-	-	3.1
Insurance contract policy liabilities [(2)]	1,779.4	208.1	683.0	888.3	-	-	1,779.4
Investment contract policy liabilities	1,498.3	4.7	-	-	-	1,493.6	1,498.3
Unvested policy owner benefits	365.5	-	-	-	365.5	-	365.5
	3,768.2	335.8	683.0	888.3	365.5	1,495.6	3,768.2

Notes

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

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

4. Risk management and financial instruments (continued)

4.2. Insurance risk management (continued)

4.2.5. Market risk

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

Management of market risk is most critical for products which involve the investment of significant amounts of money to meet future liabilities and where the returns on those assets either accrue to the shareholder or are not necessarily able to be passed on to policyowners in a timely manner. This includes, for example, assets backing disability income reserves for open claims and participating business. For some non-participating insurance products, such as unit-linked products, market risks are passed on to the policyowner, although as noted, the shareholder's fee revenue may be adversely affected by market falls.

(a) Foreign exchange risk

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

The Company invests a portion of investment assets in global equities with foreign currency exposure managed by entering into forward foreign exchange and futures contracts. The Company also invests in several Group related Trusts who enter into forward foreign exchange and future contracts to aim to provide capital appreciation.

The Company's exposure to foreign exchange risk at balance date is shown in the following sensitivity analysis. This analysis assumes that all other variables, in particular interest rates, remain constant. The movements in foreign exchange rate used in the sensitivity analysis for 2012 reflect the assessment of the reasonable possible changes in foreign exchange rates over the next twelve months given renewed observations and experience in the investment markets during the financial year.

	2012				2011			
	Exposure at Jun-12 $m	Movement in variable %	Profit (loss) after tax(1) $m	Equity $m	Exposure at Jun-11 $m	Movement in variable %	Profit (loss) after tax(1) $m	Equity $m
Euro	39.0	+15	4.0	-	44.1	+15	4.0	-
		-15	(5.0)	-		-15	(5.4)	-
GBP	22.0	+15	2.0	-	21.0	+15	1.9	-
		-15	(3.0)	-		-15	(2.5)	-
JPY	25.0	+15	2.0	-	21.5	+15	1.9	-
		-15	(3.0)	-		-15	(2.6)	-
USD	141.0	+15	13.0	-	122.8	+15	11.1	-
		-15	(17.0)	-		-15	(15.0)	-

Notes

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

4. Risk management and financial instruments (continued)

4.2. Insurance risk management (continued)

4.2.5. Market risk (continued)

(b) Interest rate risk

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

The sensitivity of profit or loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. The movements in interest rate used in the sensitivity analysis for 2012 has been revised to reflect updated assessment of the reasonable possible changes in interest rate over the next twelve months given renewed observations and experience in the investment markets during the financial year. There is no impact on equity reserves.

	2012				2011			
	Exposure at Jun-12 $m	Movement in variable %	Profit (loss) after tax [1] $m	Equity $m	Exposure at Jun-11 $m	Movement in variable %	Profit (loss) after tax [1] $m	Equity $m
Interest bearing investment assets (including derivative financial instruments) [2]	2,497.3	+1.5	(51.3)	-	1,510.7	+1.5	(13.9)	-
		-1.0	34.2	-		-0.6	5.5	-
Loans and advances	19.4	+1.5	0.2	-	14.2	+1.5	0.1	-
		-1.0	(0.1)	-		-0.6	(0.1)	-
Derivative financial instruments	5.3	+1.5	0.1	-	3.1	+1.5	0.0	-
		-1.0	(0.0)	-		-0.6	(0.0)	-

Notes

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

(2) Excludes interest-bearing investment securities held for investment-linked business as the Company has no direct interest rate risk exposure from these investment securities.

(c) Equity risk

The Company has exposure to equity risk from equity investments in its investment portfolios. Equity risk is managed by incorporating a diverse holding of Australian and overseas equities (whether direct or through unitised vehicles) and through the controlled use of derivative financial instruments. The table below presents a sensitivity analysis showing the impact on profit or loss for listed equity price movements as at the balance date with all other variables remaining constant. The price risk in relation to unlisted securities is immaterial in terms of the possible impact on profit or loss and has not been included in the sensitivity analysis. There is no impact on equity reserves.

	2012				2011			
	Exposure at Jun-12 $m	Movement in variable %	Profit (loss) after tax [1] $m	Equity $m	Exposure at Jun-11 $m	Movement in variable %	Profit (loss) after tax [1] $m	Equity $m
Australian equities	670.1	+20	93.8	-	636.0	+20	89.0	-
		-20	(93.8)	-		-20	(89.0)	-
International equities	213.1	+20	29.8	-	208.0	+20	29.0	-
		-20	(29.8)	-		-20	(29.0)	-

Notes

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

4. Risk management and financial instruments (continued)

4.2. Insurance risk management (continued)

4.2.5. Market risk (continued)

(d) Credit spread risk

Life is exposed to credit spread risk through its investments in interest-bearing securities. This risk is mitigated by incorporating a diversified investment portfolio, establishing maximum exposure limits for counterparties and minimum limits on credit ratings. The table below presents a sensitivity analysis on how credit spread movements could affect profit or loss for its exposure in direct investment holdings as at the balance date. There is no impact on equity reserves. The movements in credit spread used in the sensitivity analysis for 2012 have been revised to reflect an updated assessment of the reasonable possible changes in credit spread over the next 12 months given renewed observations and experience in the investment markets during the financial year.

	2012			2011		
	Exposure at Jun-12 $m	Change in credit spread %	Profit (loss) after tax $m	Exposure at Jun-11 $m	Change in credit spread %	Profit (loss) after tax $m
Credit exposure (excluding semi-government)	242.8	+1.0	(3.7)	65.3	+0.6	(0.3)
		-0.8	2.8		-0.3	0.1
Credit exposure (excluding government)	737.0	+0.4	(12.3)	154.3	+0.2	(1.5)
		-0.4	12.3		-0.1	0.8

4. Risk management and financial instruments (continued)

4.3. Fair value hierarchy

Financial assets and liabilities that are recognised and measured at fair value are categorised by a hierarchy which identifies the most significant input used in the valuation methodology.

- Level 1 – derived from quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2 – derived from other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly
- Level 3 – fair value measurement is not based on observable market data.

30 June 2012	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets designated at fair value through profit or loss	2,043.1	4,136.3	3.6	6,182.9
Derivative financial assets	-	5.3	-	5.3
	2,043.1	4,141.7	3.6	6,188.3
Life investment contract liabilities	-	(3,218.7)	-	(3,218.7)
	2,043.1	923.0	3.6	2,969.6

30 June 2011	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets designated at fair value through profit or loss	1,565.3	1,985.2	3.0	3,553.5
Derivative financial assets	-	3.1	-	3.1
	1,565.3	1,988.3	3.0	3,556.6
Life investment contract liabilities	-	(1,498.3)	-	(1,498.3)
	1,565.3	490.0	3.0	2,058.3

There have been no transfers in either direction (level 1 to level 2 and vice versa) during the year ended 30 June 2012 (2011: nil).

The Company's exposure to Level 3 financial instruments are restricted to an insignificant component of the portfolios to which they belong, such that any change in the assumptions used to value the instruments to a reasonably possible alternative do not have a material effect on the portfolio balance or the Company's results.

Financial assets	2012 Investment Securities $m	2011 Investment Securities $m
Balance at the beginning of the financial year	3.0	3.0
Total gains or losses included in profit or loss for:		
Life insurance investment (loss) revenue	(0.4)	-
Part 9 Transfer	2.5	-
Transfers out of level 3	0.2	-
Purchases	1.9	-
Sales	(3.6)	-
Balance at the end of the financial year	3.6	3.0

5. Derivative financial instruments

	Notional Principal Amount 2012 $m	Notional Principal Amount 2011 $m
Less than one year	501.2	396.6
Total derivative exposure	501.2	396.6

2012	**Face value $m**	**Fair value $m**
Exchange rate related contracts		
Forward exchange contracts	248.7	6.7
Interest rate related contracts		
Interest rate swaps	269.3	(1.4)
Interest rate futures	(103.4)	-
Interest rate options	7.0	-
Equity contracts		
Equity futures	79.6	-
	501.2	5.3

2011		
Exchange rate related contracts		
Forward exchange contracts	226.3	2.3
Interest rate related contracts		
Interest rate swaps	188.5	0.4
Interest rate futures	(44.6)	(0.1)
Equity contracts		
Equity futures	26.4	0.5
	396.6	3.1

6. Premium revenue

	2012 $m	2011 $m
Direct premiums	1,101.9	442.0
Direct consideration for deferred annuities:		
Policy conversions	60.3	47.7
Total premium received or receivable	1,162.2	489.7
Premiums recognised as a deposit or change in policy liabilities (note 19(b),(c))	(771.0)	(288.9)
Total premium revenue	391.2	200.8

7. Investment revenue

	2012 $m	2011 $m
Interest, dividend and similar revenue sourced from:		
Equity securities	199.6	98.2
Debt securities	174.4	110.0
Property	13.4	20.5
Other	-	1.3
	387.4	230.0
Investment gains sourced from:		
Equity securities	(178.1)	53.7
Debt securities	10.9	5.1
Property	0.7	8.0
Other	3.8	40.6
	(162.7)	107.4
Total investment revenue	224.7	337.4

8. Revenue from operating activities

	2012 $m	2011 $m
Revenue		
Premium revenue (note 6)	391.2	200.8
Investment revenue including realised and unrealised gains and losses:		
Equity	21.5	151.9
Debt	185.3	115.1
Property	14.1	28.5
Other net investment revenue including realised and unrealised gains and (losses)	3.8	41.9
Total investment revenue (note 7)	224.7	337.4
Other revenue - Fees	1.4	4.6
Reinsurance recoveries	103.3	45.6
Total revenue	720.6	588.4

9. Claim expense

	2012 $m	2011 $m
Death and disability claims	(265.2)	(145.4)
Maturities	(10.4)	(17.3)
Annuities	(47.9)	(47.1)
Surrenders and terminations	(884.0)	(394.4)
Policy conversions	(60.3)	(47.7)
	(1,267.8)	(651.9)
Claims recognised as a change in gross policy liabilities (note 19(b),(c))	950.0	477.0
Total claims expense	(317.8)	(174.9)
Interim and terminal bonuses paid, included in total claims paid or payable	(2.2)	(3.6)

10. Operating expenses

	2012 $m	2011 $m
Policy acquisition expenses:		
Commission	(36.9)	(3.8)
Other	(70.1)	(12.3)
Policy maintenance expenses:		
Commission	(32.2)	(7.6)
Other	(45.4)	(17.8)
Acquisition cost written-off	-	(0.5)
Investment management expenses	(8.6)	(7.4)
Total administration expenses - life insurance activities	(193.2)	(49.4)
Amortisation of non-life deferred acquisition costs	(2.4)	(2.4)
Administration expenses - non-life insurance activities	-	(2.2)
Total operating expenses	(195.6)	(54.0)

11. Operating results

	2012 $m	2011 $m
Profit from operating activities before income tax expense has been arrived at after charging the following items:		
Employee expenses	(13.3)	(9.8)
Total employee expenses	(13.3)	(9.8)
Occupancy costs		
Office rental	(0.7)	(0.2)
Other	0.1	(0.1)
Total occupancy costs	(0.6)	(0.3)
Other expenses		
Communications	(3.3)	(0.6)
Technology	-	(0.1)
Financial	(4.3)	(0.6)
Marketing	(0.3)	(0.3)
Client service charges	(1.9)	-
Intra group expenses	(79.2)	(17.8)
Other	(2.7)	(0.2)
Total other	(91.7)	(19.6)

All employees of the Company are employed by a related entity and these associated costs along with other related expenses are recharged to the Company through intra group expenses.

12. Taxation

(a) Income tax expense

	2012 $m	2011 $m
Recognised in the profit or loss		
Current tax expense		
Current year	57.1	41.6
Adjustments for prior years	(8.6)	(1.1)
	48.5	40.5
Deferred tax expense		
Origination and reversal of temporary differences	(8.9)	5.6
Total income tax expense	39.6	46.1
Numerical reconciliation between income tax expense and pre-tax net profit		
Profit before tax	176.5	86.0
Income tax using the domestic corporation rate of 30%	52.9	25.8
(Decrease)/Increase in income tax expense due to:		
Other	(3.8)	19.9
	49.1	45.7
Over (under) provision in prior years	(9.5)	0.4
Income tax expense on pre-tax net profit	39.6	46.1

Income tax expense includes an amount of $39.4 million (2011: $46.4 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	2012 %	2011 %
Complying superannuation business [1]	15	15
Ordinary class of business	30	30
Shareholder funds	30	30
Annuity and pension business [2]	Exempt	Exempt

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

12. Taxation (continued)

(a) Income tax expense (continued)

Basis of income tax apportionment

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

(b) Current tax liabilities

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

(c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012 $m	2011 $m	2012 $m	2011 $m	2012 $m	2011 $m
Company						
Intangible assets	-	-	(0.7)	(1.1)	(0.7)	(1.1)
Other investments	21.2	8.9	-	-	21.2	8.9
Provisions	0.5	-	-	-	0.5	-
Other	0.7	1.7	-	-	0.7	1.7
Tax assets/(liabilities)	22.4	10.6	(0.7)	(1.1)	21.7	9.5
Set off of tax	(0.7)	(1.1)	0.7	1.1	-	-
Tax assets/(liabilities)	21.7	9.5	-	-	21.7	9.5

Movements in Deferred Tax Assets	
Balance at the beginning of the financial year	9.5
Credited to profit or loss	8.9
Transfer in due to Part 9	3.3
Balance at the end of the financial year	21.7

13. Cash and cash equivalents

	2012 $m	2011 $m
Cash at bank	72.3	3.8
Cash held indirectly through unit trusts	254.1	125.7
Other money market placements	339.6	256.1
	666.0	385.6

14. Other financial assets

	2012 $m	2011 $m
Equity security investments		
Unit trusts	3,028.1	1,508.3
Total equities	3,028.1	1,508.3
Debt security investments		
Interest bearing securities		
Private sector	-	14.7
Fixed interest	613.4	28.0
Loans and advances:		
Loans on policies	4.8	4.7
Non-forfeiture loans	14.6	9.5
Unit trusts	2,339.6	1,779.3
Total debt	2,972.4	1,836.2
Property investments		
Unit trusts	181.1	209.8
Total property	181.1	209.8
Other investments	6.7	2.3
Total financial assets	6,188.3	3,556.6
Expected to be realised within 12 months	4,331.8	2,495.6
Expected to be realised in more than 12 months	1,856.5	1,061.0
	6,188.3	3,556.6

15. Receivables

	2012 $m	2011 $m
Owing from related parties		
Tax related	-	0.5
Other	19.2	4.5
	19.2	5.0
Reinsurance recoveries receivable	66.1	18.2
Investment income accrued	38.5	88.5
Other debtors	34.5	20.7
	158.3	132.4
Expected to be realised within 12 months	158.3	132.4
Expected to be realised in more than 12 months	-	-
	158.3	132.4

16. Deferred acquisition costs

	2012 $m	2011 $m
Deferred acquisition costs at beginning of financial year	3.7	6.1
Acquisition costs deferred	(1.4)	(1.4)
Acquisition costs written-off	-	(0.5)
Amortisation charged to statement of comprehensive income	-	(0.5)
Deferred acquisition costs at end of financial year	2.3	3.7
Expected to be realised within 12 months	2.3	3.7
Expected to be realised in more than 12 months	-	-
	2.3	3.7

17. Payables

	2012 $m	2011 $m
Policy claims in process of settlement	118.5	29.5
Reinsurance premium payable	39.4	4.6
Sundry creditors and accrued expenses	73.0	11.9
Deferred service fees	0.2	0.3
Owing to related parties		
Tax related	80.6	36.3
Others	7.3	34.6
	319.0	117.2
Expected to be settled within 12 months	319.0	117.2
Expected to be settled in more than 12 months	-	-
	319.0	117.2

18. Deposits and short term borrowings

	2012 $m	2011 $m
Unsecured		
Ultimate parent entity	1.0	-
Controlled entities of the ultimate parent entity	6.7	0.6
Parent entity	-	0.1
Controlled entities of the parent entity	4.3	4.0
	12.0	4.7
Expected to be settled within 12 months	12.0	4.7
Expected to be settled in more than 12 months	-	-
	12.0	4.7

19. Policy liabilities

	2012 $m	2011 $m
(a) Policy liabilities		
Gross policy liabilities	5,048.2	3,356.0
Gross policy liabilities ceded under reinsurance	(431.3)	(78.3)
Net policy liabilities	4,616.9	3,277.7
Expected to be realised within 12 months	637.2	440.1
Expected to be realised in more than 12 months	4,411.0	2,915.9
	5,048.2	3,356.0
(b) Life insurance contract policy liabilities		
Gross policy liabilities at the beginning of the year	1,857.7	1,783.5
Part 9 transfer of life insurance business (note 33(c))	59.2	-
Insurance premiums recognised as a change in gross policy liabilities (note 6)	503.8	141.0
Claims expense recognised as a change in gross policy liabilities (note 9)	(506.2)	(185.5)
(Decrease)/Increase in life insurance contract policy liabilities reflected in the statement of comprehensive income	(85.0)	118.7
(Decrease)/Increase in gross policy liabilities	(28.2)	74.2
Gross policy liabilities at the end of the year	1,829.5	1,857.7
(c) Life investment contract policy liabilities		
Gross policy liabilities at the beginning of the year	1,498.3	1,527.0
Part 9 transfer of life investment business (note 33(c))	1,812.9	-
Life investment contract contributions recognised in policy liabilities (note 6)	267.2	147.9
Life investment contract withdrawals recognised in policy liabilities (note 9)	(443.8)	(291.5)
Increase in life investment contract policy liabilities reflected in the statement of comprehensive income	84.1	114.9
Increase/(Decrease) in gross policy liabilities	1,720.4	(28.7)
Gross policy liabilities at the end of the year	3,218.7	1,498.3
(d) Gross policy liabilities ceded under reinsurance		
Gross policy liabilities ceded at the beginning of the year	78.3	92.8
Part 9 transfer of life insurance business (note 33(c))	309.2	-
Increase/(Decrease) in gross policy liabilities ceded	43.8	(14.5)
Gross policy liabilities ceded at the end of the year	431.3	78.3
Expected to be realised within 12 months	77.1	22.4
Expected to be realised in more than 12 months	354.2	55.9
	431.3	78.3
(e) Unvested policyowner benefits liability		
Unvested policyowner benefits at the beginning of the year	365.5	386.5
Part 9 transfer of life insurance business (note 33(c))	(0.1)	-
(Decrease) Increase in unvested policyowner benefits	(4.7)	(21.0)
Unvested policyowner benefits at the end of the year	360.7	365.5

19. Policy liabilities (continued)

	Current Basis [5] 2012 $m	Previous Basis [4] 2012 $m	2011 [6] $m
(f) Components of net policy liabilities - insurance contracts			
Best estimate liability			
Value of future policy benefits [1]	4,733.6	4,489.5	1,942.8
Value of future expenses	2,147.8	2,223.6	213.5
Value of unrecouped acquisition expenses	(213.1)	(213.1)	(177.2)
Balance of future premiums	(6,607.6)	(6,740.0)	(1,090.1)
Total best estimate liability	60.7	(240.0)	889.0
Value of future profits			
Policyowner bonuses [2]	366.2	530.2	520.9
Shareholder profit margins	889.4	1,016.7	262.9
Total value of future profits	1,255.6	1,546.9	783.8
Total value of declared bonuses [3]	81.9	81.9	106.6
Total net policy liabilities	1,398.2	1,388.8	1,779.4
Life insurance reinsurance ceded	431.3	431.3	78.3
Gross insurance contract liabilities	1,829.5	1,820.1	1,857.7

Notes

(1) Future policy benefits include bonuses credited to policyowners in prior periods but exclude current period bonuses (as set out in the statement of comprehensive income) and future bonuses (as set out in (2)). Where business is valued by other than projection techniques, future policy benefits includes the account balance.
(2) Future bonuses exclude current period bonuses.
(3) Current year declared bonuses valued in accordance with the APRA Prudential Standard LPS1.04 Valuation of Policy Liabilities issued under Section 230A(1) of the *Life Act*.
(4) Using the actuarial methods and assumptions relevant at the previous reporting date, but on current in force business.
(5) Using the actuarial methods and assumptions relevant at the current reporting date on current in force business.
(6) Prior year actuarial methods and assumptions applied on the prior year current basis.

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 $1,383.2. million (2011: $1,131 million).

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

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

20. Share capital

(a) Share capital

	2012 $m	2011 $m
On issue at 1 July	38.9	38.9
Capital Injection	71.5	-
Capital Redemption	(5.0)	-
Part 9 Equity Transfer	451.3	-
On issue at 30 June	556.7	38.9

Ordinary shares on issue at 30 June total 118,583,248 (2011: 38,902,529), each fully paid.

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.

	No. of shares	
	2012	2011
Balance brought forward	38.9	38.9
Capital Injection	80.2	-
Capital Redemption	(0.5)	-
Balance at the end of the year	118.6	38.9

Under section 23(1) of the *Life Act*, the Company is required at all times to have an adjusted paid up share capital of at least $10.0 million or higher amount as specified by the regulations.

(b) Capital management

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

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

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

The solvency requirements and ratios in respect of those requirements for the life insurance business are set out in note 27.

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

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

21. Dividends

	2012 $m	2011 $m
Ordinary shares		
Final dividend 2011 $ nil (2010: $0.771) per fully paid share	-	(30.0)
Interim dividend 2012 $0.170 (2011: $0.129) per fully paid share	(20.0)	(5.0)
Interim dividend 2012 $0.213 (2011: $0.694) per fully paid share	(25.0)	(27.0)
	(45.0)	(62.0)

Franking credits

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

22. Reconciliation of cash flows from operating activities

	2012 $m	2011 $m
Profit for the year	136.9	39.9
Classified as investing activities		
Changes in net market value of investments realised and unrealised (note 7):		
Equity securities	178.1	(53.7)
Debt securities	(10.9)	(5.1)
Property securities	(0.7)	(8.0)
Other securities	(3.8)	(40.6)
Change in assets and liabilities		
Decrease (increase) in:		
Insurance and other recoveries receivable	10.1	(7.3)
Premiums outstanding	2.4	-
Interest receivable	30.4	(2.8)
Equity receivables	22.0	(29.1)
Property income receivable	(2.9)	1.0
Investment income receivable	(14.7)	6.2
Deferred acquisition costs	1.4	2.4
Other debtors	1.4	(18.8)
Increase (decrease) in:		
Net movement in tax balances	35.2	37.6
Premiums in advance	4.9	(0.1)
Claims outstanding	6.1	10.0
Reinsurance premiums paid	34.8	(0.5)
Policy liabilities (net)	(223.6)	60.0
Policyowner retained profits	(4.8)	(21.0)
Deferred service fee income	(0.1)	(0.2)
Other payables	(26.6)	(25.3)
Other liabilities	(0.2)	(0.9)
Net cash inflow/(outflow) from operating activities	175.4	(56.3)

23. Auditors' remuneration

	2012 $	2011 $
Audit and review services		
Auditors of the Company		
KPMG Australia		
Audit of financial reports	408,800	245,265
Other regulatory services	71,550	71,332
	480,350	316,597

Fees for services rendered by the entity's auditor in relation to the statutory audit are paid by the ultimate parent entity and recharged to the Company through intra group expenses.

24. Contingent assets and liabilities

(a) Contingent assets

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

Litigation

The Company is making a claim for payments made to a third party and the prospects of success are still being assessed. Disclosure of any further information about the matter would be prejudicial to the interests of the Company.

(b) Contingent liabilities

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

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

Derivative instruments

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

Tax consolidation

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

Litigation

The Company has been advised of a potential claim by a third party and the prospects of a likely settlement are still being assessed. Disclosure of any further information about the matter would be prejudicial to the interests of the Company, notwithstanding that the directors do not expect the outcome of any such claim to have a material effect on the Company's financial position.

25. Summary of shareholder's interests

	Statutory Funds 2012 $m	Statutory Funds 2011 $m	Shareholder Fund 2012 $m	Shareholder Fund 2011 $m	Total 2012 $m	Total 2011 $m
Operating profit after income tax	137.2	41.1	(0.3)	(1.2)	136.9	39.9
Shareholder's retained profits at the beginning of the financial year	290.7	289.8	2.2	25.2	292.9	315.0
Part 9 transfer of life insurance business	791.7	-	-	-	791.7	-
Transfers of profits between funds	-	(40.2)	-	40.2	-	-
Dividends paid (note 21)	-	-	(45.0)	(62.0)	(45.0)	(62.0)
Shareholder's retained profits at the end of the financial year	1,219.6	290.7	(43.1)	2.2	1,176.5	292.9
Share capital (note 20)	-	-	105.4	38.9	105.4	38.9
Part 9 transfer of life insurance business (note 20)	451.3	-	-	-	451.3	-
Capital transfers to statutory funds	51.4	29.8	(51.4)	(29.8)	-	-
Total shareholder's equity (note 31(d),(e))	1,722.3	320.5	10.9	11.3	1,733.2	331.8

	Statutory Funds 2012 $m	Statutory Funds 2011 $m
Components of shareholder's interests in statutory funds:		
Shareholder's retained profits - participating business	115.0	91.3
Shareholder's retained profits - non-participating business	1,104.6	199.4
Shareholder's capital	502.7	29.8
	1,722.3	320.5

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

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

(a) Allocation of operating profit

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

Participating business

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

Non-participating business

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

(b) Distribution of retained profits

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

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

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

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

(c) Details of operating profits

	Policyowners' interests		Shareholder's interests		Total Statutory Funds	
	2012 $m	2011 $m	2012 $m	2011 $m	2012 $m	2011 $m
Operating profit after income tax (Note 25)	-	-	137.2	41.1	137.2	41.1
Bonuses provided for or paid in the current period:						
Interim & terminal bonus on claims paid	2.2	3.6	-	-	2.2	3.6
Declared bonus on in force policies	81.9	106.6	-	-	81.9	106.6
(Decrease) Increase in policyowner retained profits	(4.7)	(21.0)	-	-	(4.7)	(21.0)
Life Act operating profit after income tax	79.4	89.2	137.2	41.1	216.6	130.3
Sources of the operating profit:						
From non-investment linked business:						
Participating business	79.4	89.2	20.0	22.3	99.4	111.5
Non-participating business	-	-	108.6	15.8	108.6	15.8
From investment linked business:						
Non-participating business	-	-	8.6	3.0	8.6	3.0
	79.4	89.2	137.2	41.1	216.6	130.3

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

(d) Details of retained profits

	Policyowners' interests		Shareholder's interests		Total Statutory Funds	
	2012 $m	2011 $m	2012 $m	2011 $m	2012 $m	2011 $m
Retained profits at the beginning of the financial year	-	-	290.7	289.8	290.7	289.8
Liability for unvested policyowner benefits (note 19(e))	365.5	386.5	-	-	365.5	386.5
Life Act retained profits at the beginning of the financial year	365.5	386.5	290.7	289.8	656.2	676.3
Part 9 transfer of life insurance business	(0.1)	-	791.7	-	791.6	-
Life Act operating profit after income tax (note 28)	79.4	89.2	137.2	41.1	216.6	130.3
Transfer (to)/from shareholder's fund from participating business (note 25)	-	-	-	(27.7)	-	(27.7)
Transfer (to)/from shareholder's fund from non-participating business (note 25)	-	-	-	(12.5)	-	(12.5)
Provision for bonuses to participating policyowners	(84.1)	(110.2)	-	-	(84.1)	(110.2)
Life Act retained profits at the end of the financial year	360.7	365.5	1,219.6	290.7	1,580.3	656.2
Policyowner retained profits at the end of the financial year (note 19(e))	(360.7)	(365.5)	-	-	(360.7)	(365.5)
Retained profits at the end of the financial year	-	-	1,219.6	290.7	1,219.6	290.7
Components of Life Act retained profits at the end of the financial year:						
Policyowners' interests (note 19(e))	360.7	365.5	-	-	360.7	365.5
Shareholder's interests in participating business	-	-	115.0	91.3	115.0	91.3
Shareholder's interests in non-participating business	-	-	1,104.6	199.4	1,104.6	199.4
	360.7	365.5	1,219.6	290.7	1,580.3	656.2

27. Solvency requirements of the statutory funds

The Company is required to hold prudential reserves, over and above their life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. This involves the monitoring of two aspects of each life statutory fund - solvency and capital adequacy.

The purpose of the solvency requirement is to ensure, as far as practicable, that at any time the Company will be able to meet all existing liabilities as they become due. The capital adequacy requirement is a separate requirement (usually higher) that must be satisfied for the life entity to be allowed to make distributions to its shareholders and to operate without regulatory intervention.

Capital adequacy requirements for Australian life insurers are specified in the *Life Act* and LPS 3.04 Capital Adequacy Standard with the Company holding a target surplus of capital in excess of this prescribed minimum.

The methodology and bases for determining Australian solvency requirements is in accordance with LPS 2.04 Solvency Standard, as required under the *Life Act*. Minimum termination values have been determined in accordance with APRA Prudential Standard LPS 4.02 Minimum Surrender Values and Paid Up Values and APRA Prudential Standard LPS 2.04 Solvency Standard.

The Appointed Actuary has confirmed that the available assets of each life statutory fund have exceeded the capital adequacy and the solvency reserve required at all times during the year.

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	
		2012 $m	2011 $m	2012 $m	2011 $m	2012 $m	2011 $m
Solvency requirement							
Minimum termination value		2,702.5	1,869.1	3,183.9	1,496.8	5,886.4	3,365.9
Gross policy liabilities ceded under reinsurance	'B'	431.3	78.3	-	-	431.3	78.3
Other liabilities		257.4	113.4	77.8	10.5	335.2	123.9
Solvency reserve	'C'	271.5	214.7	16.5	0.2	288.0	214.9
Solvency requirement	'A'	3,662.7	2,275.5	3,278.2	1,507.5	6,940.9	3,783.0
Assets available for solvency reserve	'D'						
Surplus or deficit (if any) of net policy liabilities relative to net minimum termination value		(1,284.5)	(85.0)	15.0	(3.2)	(1,269.5)	(88.2)
Net assets		1,674.2	303.4	48.1	17.1	1,722.3	320.5
Liability for policyowner retained profits at the end of financial year		360.7	365.5	-	-	360.7	365.5
		750.4	583.9	63.1	13.9	813.5	597.8
Solvency reserve % (C divided by (A-B-C))		9.2%	10.8%	0.5%	0.0%	4.6%	6.2%
Coverage of solvency reserve (times) (D divided by C)		2.8	2.7	3.8	69.5	2.8	2.8

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

28. Statement of sources of operating profit

	Life Insurance Contracts 2012 $m	Investment Linked Contracts 2012 $m	Other Life Investment Contracts 2012 $m	Total 2012 $m	Total 2011 $m
Life Act shareholder's 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	38.1	4.3	-	42.4	18.8
Emergence of shareholder's planned profits	55.0	-	-	55.0	26.3
Experience profit (loss)	37.7	-	-	37.7	(3.8)
(Losses capitalised)/Reversal of capitalised loss	(2.2)	-	-	(2.2)	(1.6)
Management services profit	-	4.3	-	4.3	1.4
Life Act shareholder's operating profit after income tax	128.6	8.6	-	137.2	41.1
Cumulative losses carried forward at the end of the financial year	32.5	-	-	32.5	3.4
Life Act policyowners' operating profit in the statutory funds					
The Life Act policyowners' operating profit after income tax in the statutory funds is represented by:					
Investment earnings on retained profits	10.7	-	-	10.7	25.1
Emergence of policyowner planned profits	72.0	-	-	72.0	60.5
Experience profit/(loss)	(3.3)	-	-	(3.3)	3.6
Life Act policyowners' operating profit after income tax	79.4	-	-	79.4	89.2

29. Asset restrictions, managed assets and trustee activities

Restrictions on assets

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

Trustee activities

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

30. Segment information

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

31. 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, Trauma, 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.

31. Statutory funds segment information (continued)

(b) Abbreviated statement of comprehensive income at fund and category level for the year ended 30 June 2012

2012	Non-Investment Linked Statutory Fund No 1 $m	Investment Linked Statutory Fund No 2 $m	Total Statutory Funds $m	Shareholder Fund $m	Total $m
Premium revenue	391.2	-	391.2	-	391.2
Outwards reinsurance expense	(80.1)	-	(80.1)	-	(80.1)
	311.1	-	311.1	-	311.1
Investment revenue	126.0	98.0	224.0	0.7	224.7
Other revenue	(0.2)	-	(0.2)	1.6	1.4
Total revenue	436.9	98.0	534.9	2.3	537.2
Claims expense	(317.8)	-	(317.8)	-	(317.8)
Reinsurance recoveries	103.3	-	103.3	-	103.3
	(214.5)	-	(214.5)	-	(214.5)
Operating expenses	(179.5)	(13.4)	(192.9)	(2.7)	(195.6)
Increase in net insurance contract liabilities	128.8	-	128.8	-	128.8
Decrease (increase) in investment contract liabilities	3.0	(87.1)	(84.1)	-	(84.1)
Increase in policyowner retained profits	4.7	-	4.7	-	4.7
Total operating expenses	(257.5)	(100.5)	(358.0)	(2.7)	(360.7)
Operating profit (loss) before income tax	179.4	(2.5)	176.9	(0.4)	176.5
Income tax (expense)/benefit	(50.8)	11.1	(39.7)	0.1	(39.6)
Profit (loss) from ordinary activities after income tax	128.6	8.6	137.2	(0.3)	136.9

31. Statutory funds segment information (continued)

(c) Abbreviated statement of comprehensive income at fund and category level for the year ended 30 June 2011

2011	Non-Investment Linked Statutory Fund No 1 $m	Investment Linked Statutory Fund No 2 $m	Total Statutory Funds $m	Shareholder Fund $m	Total $m
Premium revenue	200.8		200.8	-	200.8
Outwards reinsurance expense	(46.4)	-	(46.4)	-	(46.4)
	154.4	-	154.4	-	154.4
Investment revenue	215.6	120.8	336.4	1.0	337.4
Other revenue	0.6	1.6	2.2	2.4	4.6
Total revenue	370.6	122.4	493.0	3.4	496.4
Claims expense	(174.9)	-	(174.9)	-	(174.9)
Reinsurance recoveries	45.6	-	45.6	-	45.6
	(129.3)	-	(129.3)	-	(129.3)
Operating expenses	(47.8)	(1.3)	(49.1)	(4.9)	(54.0)
Increase in net insurance contract liabilities	(133.2)	-	(133.2)	-	(133.2)
Decrease (increase) in investment contract liabilities	(1.6)	(113.3)	- (114.9)	-	(114.9)
(Decrease) in policyowner retained profits	21.0	-	21.0	-	21.0
Total operating expenses	(290.9)	(114.6)	(405.5)	(4.9)	(410.4)
Operating profit (loss) before income tax	79.7	7.8	87.5	(1.5)	86.0
Income tax expense	(41.4)	(5.0)	(46.4)	0.3	(46.1)
Profit from ordinary activities after income tax	38.3	2.8	41.1	(1.2)	39.9

31. Statutory funds segment information (continued)

(d) Abbreviated statement of financial position at fund and category level for the year ended 30 June 2012

2012	Non-Investment Linked Statutory Fund No 1 $m	Investment Linked Statutory Fund No 2 $m	Total Statutory Funds $m	Shareholder Fund $m	Total $m
Investment assets	3,393.7	2,785.6	6,179.3	9.0	6,188.3
Total other financial assets	3,393.7	2,785.6	6,179.3	9.0	6,188.3
Gross policy liabilities ceded under reinsurance	431.3	-	431.3	-	431.3
Cash and cash equivalents	198.8	465.6	664.4	1.6	666.0
Other assets	117.8	73.6	191.4	4.3	195.7
TOTAL ASSETS	4,141.6	3,324.8	7,466.4	14.9	7,481.3
Gross policy liabilities	1,849.3	3,198.9	5,048.2	-	5,048.2
Policyowner retained profits	360.7	-	360.7	-	360.7
Other liabilities	257.4	77.8	335.2	4.0	339.2
TOTAL LIABILITIES	2,467.4	3,276.7	5,744.1	4.0	5,748.1
NET ASSETS	1,674.2	48.1	1,722.3	10.9	1,733.2
Share capital	-	-	-	105.4	105.4
Part-9 Equity Transfer	435.4	15.9	451.3	-	451.3
Capital transfers	37.8	13.6	51.4	(51.4)	-
Retained profits	1,201.0	18.6	1,219.6	(43.1)	1,176.5
TOTAL EQUITY	1,674.2	48.1	1,722.3	10.9	1,733.2

31. Statutory funds segment information (continued)

(e) Abbreviated statement of financial position at fund and category level for the year ended 30 June 2011

2011	Non-Investment Linked $m	Investment Linked $m	Total Statutory $m	Shareholder Fund $m	Total $m
Investment assets	2,365.0	1,185.1	3,550.1	6.5	3,556.6
Total other financial assets	2,365.0	1,185.1	3,550.1	6.5	3,556.6
Gross policy liabilities ceded under reinsurance	78.3	-	78.3	-	78.3
Cash and cash equivalents	100.1	285.1	385.2	0.4	385.6
Other assets	101.3	51.0	152.3	5.5	157.8
TOTAL ASSETS	2,644.7	1,521.2	4,165.9	12.4	4,178.3
Gross policy liabilities	1,862.4	1,493.6	3,356.0	-	3,356.0
Policyowner retained profits	365.5	-	365.5	-	365.5
Other liabilities	113.4	10.5	123.9	1.1	125.0
TOTAL LIABILITIES	2,341.3	1,504.1	3,845.4	1.1	3,846.5
NET ASSETS	303.4	17.1	320.5	11.3	331.8
Share capital	-	-	-	38.9	38.9
Capital transfers	5.2	24.6	29.8	(29.8)	-
Retained profits	298.2	(7.5)	290.7	2.2	292.9
TOTAL EQUITY	303.4	17.1	320.5	11.3	331.8

32. Controlled entities

Managed investment schemes

The Company deems control to exist where it owns at least 50% of the issued units in managed investment schemes. The Company had recognised control for the following managed investment schemes during the year ended 30 June 2012 and control continues to be recognised:

	2012 %	2011 %
Suncorp Investment Management Global Macro Tactical Asset Allocation Trust	-	89
Suncorp Investment Management Property Securities Trust	-	67
Suncorp Investment Management Australian Equities Trust	-	90
Suncorp Investment Management Australian Fixed Interest Trust	-	84
Suncorp Investment Management World Equities Trust	-	71
Suncorp Investment Management Australian Cash Trust	-	78
Suncorp Investment Management World Fixed Interest Trust	-	93
Suncorp Investment Management Imputation Trust	-	62
Suncorp Group Australian Equities Enhanced Index	82	-
Suncorp Group Australian Equities Active Trust	82	-
Suncorp Group Global Equities Trust	74	-

33. Related parties

(a) Key management personnel compensation

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

	2012 $	2011 $
Short-term employee benefits	17,484,180	16,566,169
Long-term employee benefits	5,553,220	3,010,858
Post-employment benefits	317,977	1,310,734
Share-based payments	5,199,000	4,787,216
Termination benefits	241,000	1,317,925
	28,795,377	26,992,902

The ultimate parent entity has determined the compensation of KMPs in accordance with their roles within the entire Suncorp Group Limited. 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 on a stand-alone basis. Therefore, as there is no reasonable basis for allocating a KMP compensation amount to the Company, the entire compensation of the KMPs has been disclosed above.

Other key management personnel transactions

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

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

Identity of related parties

The Company has related party relationships with its subsidiaries (see below), its key management personnel (refer to disclosures for key management personnel above) and other entities within the wholly-owned group (which consists of Suncorp Group Limited and its wholly-owned subsidiaries). The intermediate parent entity is Suncorp Life Holdings Limited and the ultimate parent entity in the wholly-owned group is Suncorp Group Limited.

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 these entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non- related entities on an arm's length basis.

33. Related parties (continued)

(b) 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:

	2012 $	2011 $
Distribution fee income:		
Controlled entity of parent entity	(2,658,198)	(1,454,656)
	(2,658,198)	(1,454,656)
Management fee income:		
Controlled entity of parent entity	(587,816)	(346,638)
	(587,816)	(346,638)
Administration expenses (revenue):		
Ultimate parent entity	233,860	560
Controlled entities of ultimate parent entity	19,993,955	13,896,793
Parent entity	-	2,736,575
Controlled entities of parent entity	85,243,237	15,803,353
	105,471,052	32,437,281
Dividends paid or due and payable :		
Ultimate parent entity	45,000,000	62,000,000
	45,000,000	62,000,000

33. Related parties (continued)

(b) Other related party transactions (continued)

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

	2012 $	2011 $
Loans, advances and other receivables:		
Ultimate parent entity	955,019	468,461
Parent entity	-	6,213
Related entity	18,279,719	4,501,718
	19,234,738	4,976,392
Payable, deposits and short term borrowings:		
Ultimate parent entity	81,568,994	36,348,368
Parent entity	-	18,818
Related entity	18,338,938	39,090,042
	99,907,932	75,457,228

The above amounts are interest free and receivable/repayable within the next 12 months.

(c) Part 9 amalgamation of the ALL life insurance business

On 14 December 2011 the Federal Court of Australia approved the Scheme to transfer the ALL insurance business to SLSL. The transfer occurred on 1 January 2012. As a result, the Statutory Fund composition has changed since December 2011 which has also impacted the investment portfolios held by SLSL and their respective mix and size of classes.

Under the terms of the Suncorp Life Part 9 Scheme, the ALL policies were transferred from the Statutory Funds of ALL to the relevant Statutory Funds of SLSL, along with all the assets, liabilities, capital and retained earnings of ALL Statutory Funds. This includes the assets and equity being held for adherence to regulatory solvency and capital adequacy standards.

Details of the assets and liabilities transferred at carrying amount as of 1 January 2012 are listed below:

	2012 $m
Assets	
Cash and cash equivalents	89.7
Outstanding premiums	3.6
Other financial assets	2,783.7
Receivables	69.9
Gross policy liabilities ceded under reinsurance	309.2
Net deferred tax assets	3.3
Total assets	3,259.4
Liabilities	
Payables	144.2
Premium in advance	0.2
Life insurance contract liabilities	59.2
Life investment contract liabilities	1,812.9
Unvested policy owner benefits	(0.1)
Total liabilities	2,016.4
Net identifiable assets transferred	1,243.0

34. Subsequent events

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

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

(a) the financial statements and notes, set out on pages 6 to 63, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2012 and of its performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.1; and

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

Signed in accordance with a resolution of the directors:

22 August 2012

Dr Zygmunt E Switkowski
Director

Patrick J R Snowball
Managing Director

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

Report on the financial report

We have audited the accompanying financial report of Suncorp Life & Superannuation Limited (the Company), which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1.1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

KPMG

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Suncorp Life & Superannuation Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.1.

KPMG

KPMG

P. M. Reid

Paul Reid
Partner

Sydney

22 August 2012