GIO General Limited ABN 22 002 861 583

General purpose financial report

for the full year ended 30 June 2012

GIO General Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

Level 18
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.

One Company
Many Brands

SUNCORP GROUP

TABLE OF CONTENTS

The directors present their report together with the financial report of GIO General Limited (the "Company") for the financial year ended 30 June 2012 and the auditor's report thereon.

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, appointed 2003
Audette E Exel	Director appointed 27 June 2012
Stuart I Grimshaw	Resigned 23 August 2011, appointed 2010
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, appointed 2007
Executive	
Patrick J R Snowball (Managing Director)	Director since 2009

Principal activities

The principal activities of the Company during the course of the financial year were underwriting of general insurance and managing the returns of insurance and non-insurance funds.

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

Operating and financial review

Review of the Company

The profit after tax for the year ended 30 June 2012 was $110.4 million compared to a profit after tax of $104.7 million for the year ended 30 June 2011.

The insurance trading result ("ITR") was $117.2 million for the year ended 30 June 2012, compared to $115.0 million for the year ended 30 June 2011. This provided an ITR ratio of 7.5% for the current year (2011: 7.8%).

Profit after tax and ITR both obtained slight increases on the prior period. Premium growth was achieved in Home, CTP and AMP Motor. Increases in net incurred claims were primarily as a result of a fall in the risk-free yield, which was only partially offset by unrealised gains on investments backing insurance liabilities.

Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review, not otherwise disclosed.

Environmental regulation

The Company's operations are not subject to any particular or significant environmental regulations under any law of the Commonwealth of Australia or any of its states or territories. The Company has not incurred any liability (including rectification costs) under any environmental legislation.

Dividends and equity transactions

The directors have not declared a final dividend in respect of 2012 financial year as of the date of approving these financial statements. A final dividend of $67.9 million (23 cents per share) was declared and paid on ordinary shares in September 2011 in respect of the 2011 financial year. An interim dividend of $18.8 million (6 cents per share) was paid on ordinary shares in March 2012 (2011: nil).

Further details of dividends paid are set out in note 23 to the financial report.

Dividends and equity transactions (continued)

In March 2012, there was a share buyback of 3.4 million shares at a cost of $34.0 million as part of the Company's capital strategy to operate at a more efficient level of capital. In the prior year, there was a buyback of 7.5 million shares at a cost of $75.0 million as part of the Non-Operating Holding Company restructure on 7 January 2011.

Further details of equity transactions are set out in note 22 to the financial statements.

Events subsequent to reporting date

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

Likely developments

Information about 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, the ultimate parent entity, Suncorp Group Limited, has paid premiums on behalf of the Company in respect of a Directors' and Officers' Liability insurance contract. The insurance contract insures each person who is or has been a director or executive officer (as defined in the *Corporations Act 2001*) of the Company against certain liabilities arising in the course of their duties to the Company. The directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the insurance contract as disclosure is prohibited under the terms of the contract.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 3 and forms part of the directors' report for the financial year ended 30 June 2012.

Rounding off

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

This report is made with a resolution of the directors.

Dr Zigmunt E Switkowski	Patrick J R Snowball
Director	Managing Director

22 August 2012

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

To: the directors of GIO General 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:

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

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

KPMG

KPMG

Scott Guse

Scott Guse
Partner

Brisbane

22 August 2012

	Notes	2012 $m	2011 $m
Premium revenue	7	1,706.0	1,633.9
Outwards reinsurance premium expense	15	(145.5)	(166.6)
Net premium revenue		1,560.5	1,467.3
Claims expense	8	(1,421.4)	(1,239.7)
Reinsurance and other recoveries revenue	7	215.5	220.5
Net claims incurred	8	(1,205.9)	(1,019.2)
Acquisition costs	15	(210.9)	(215.2)
Other underwriting expenses	9	(219.5)	(234.6)
Underwriting expenses		(430.4)	(449.8)
Reinsurance commission revenue	7	0.6	0.4
Underwriting result		(75.2)	(1.3)
Investment income on insurance funds	7	192.4	116.3
Insurance trading result		117.2	115.0
Investment income on shareholders funds	7	31.1	36.2
Investment expense on shareholders funds		(4.2)	(4.2)
Fee for service and other income	7	93.6	122.7
Other operating expenses	9	(80.1)	(115.4)
Profit before income tax		157.6	154.3
Income tax expense	10	(47.2)	(49.6)
Profit for the year		110.4	104.7
Total comprehensive income for the year		110.4	104.7

Profit and total comprehensive income for the year is entirely attributable to owners of the Company.

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

	Notes	2012 $m	2011 $m
Current assets			
Cash and cash equivalents	**11**	28.5	36.8
Receivables	**12**	552.5	536.7
Derivative assets	**26**	7.1	4.2
Investment securities	**13**	2,568.0	2,290.2
Reinsurance and other recoveries receivable	**14**	124.7	207.3
Deferred insurance assets	**15**	312.1	311.0
Other assets	**16**	25.0	28.0
Total current assets		3,617.9	3,414.2
Non-current assets			
Receivables	**12**	137.6	112.7
Reinsurance and other recoveries receivable	**14**	162.0	143.2
Investments in controlled entities		1.3	1.3
Intangible assets	**17**	4.1	4.1
Total non-current assets		305.0	261.3
Total assets		3,922.9	3,675.5
Current liabilities			
Derivative liabilities	**26**	13.2	0.4
Payables and financial liabilities	**18**	247.4	297.0
Outstanding claims liabilities	**19**	719.7	683.7
Unearned premium liabilities	**20**	955.6	914.3
Total current liabilities		1,935.9	1,895.4
Non-current liabilities			
Payables and financial liabilities	**18**	20.3	18.2
Outstanding claims liabilities	**19**	1,450.0	1,249.7
Deferred tax liabilities	**10**	19.2	4.4
Total non-current liabilities		1,489.5	1,272.3
Total liabilities		3,425.4	3,167.7
Net assets		497.5	507.8
Equity			
Share capital		332.8	366.8
Retained profits		164.7	141.0
Total equity		497.5	507.8

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

	Note	2012 $m	2011 $m
Share capital			
Balance at the beginning of the financial year		366.8	441.8
Share buyback		(34.0)	(75.0)
Balance at the end of the financial year		332.8	366.8
Retained profits			
Balance at the beginning of the financial year		141.0	183.3
Total comprehensive income for the year		110.4	104.7
Dividends to owners	23	(86.7)	(147.0)
Balance at the end of the financial year		164.7	141.0

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

	Notes	2012 $m	2011 $m
Cash flows from operating activities			
Premiums received		1,790.8	1,684.8
Reinsurance and other recoveries received		293.8	265.7
Interest received		118.2	129.2
Other revenue received		76.2	135.2
Claims paid		(1,303.6)	(1,315.6)
Outwards reinsurance premiums paid		(167.4)	(180.8)
Acquisition costs paid		(268.2)	(239.5)
Income tax paid		(32.4)	(46.8)
Underwriting and other operating expenses paid		(195.3)	(283.1)
Net cash from operating activities	**24**	312.1	149.1
Cash flows from investing activities			
Proceeds from sale of financial assets		4,767.2	3,964.5
Payments for financial assets		(4,966.9)	(3,853.0)
Net cash from / (used in) investing activities		(199.7)	111.5
Cash flows from financing activities			
Share buyback		(34.0)	(75.0)
Dividends paid	**23**	(86.7)	(147.0)
Net cash used in financing activities		(120.7)	(222.0)
Net increase / (decrease) in cash and cash equivalents		(8.3)	38.6
Cash and cash equivalents at beginning of financial year		36.8	(1.8)
Cash and cash equivalents at end of financial year	**11**	28.5	36.8

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

Note 1. Reporting entity

GIO General Limited (the "Company") is a company domiciled in Australia. Its registered office is at Level 18, 36 Wickham Terrace, Brisbane, QLD, 4000. The Company is a for-profit entity and is involved in the underwriting of general insurance and managing the returns of insurance and non-insurance funds.

Note 2. Basis of preparation

(a) Statement of compliance

The financial statement is a general purpose financial statement which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) issued by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial statements comply with International Financial Reporting Standards ("IFRSs") and interpretations as issued 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.

The financial statements were authorised for issue by the board of directors on 22 August 2012.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except that the following assets and liabilities are measured at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments held to back general insurance liabilities.

(c) Functional and presentation currency

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

(d) Rounding

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

(e) 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 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 is recognised in the period in which the estimate is revised.

Significant estimates, judgements and assumptions are discussed in note 4.

Note 3. Significant accounting policies

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

The following standards, 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 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.

(a) Revenue

(i) Premium revenue

Premium revenue comprises amounts charged to policyholders or other insurers and includes applicable levies and charges but excludes stamp duty collected on behalf of state governments and is recognised net of goods and services tax.

Premium revenue is recognised from the date of attachment of the risk in accordance with the pattern of the underlying exposure to risk expected under the insurance contract. In most cases the exposure to risk is assumed to be even over the policy period, which is usually one year. Where this is not the case, the pattern of exposure to risk is determined by other methods such as previous claims experience, or in some limited cases, statutory formulae.

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

(ii) Reinsurance and other recoveries revenue

Reinsurance and other recoveries on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue. Amounts recoverable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(iii) Reinsurance commission revenue and expenses

Reinsurance commission revenue and expenses are recognised in the profit or loss as they accrue.

(iv) Investment revenue

<u>Interest</u>

Interest income is recognised in profit or loss using the effective interest rate method.

<u>Dividends</u>

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

Note 3. Significant accounting policies (continued)

(a) Revenue (continued)

(v) Insurance managed funds income

The Company manages statutory insurance funds for external clients and earns income from the provision of services such as premium collection and claims processing (base fee) as well as an incentive fee based on performance results. Income for the base fee is recognised as the service is provided and for the incentive fee, as the income is earned.

Fees receivables are based on management's best estimate of the likely fee at balance date. There is a significant amount of judgement involved in the estimation process of the fees receivable which may not be finalised for a number of years.

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

(vi) Fees and other income

Fees and other items of income are recognised in profit or loss as the services are rendered.

(b) Underwriting expenses

Underwriting expenses include acquisition costs and other underwriting expenses.

Costs associated with obtaining and recording insurance business are referred to as acquisition costs and include commissions and other selling and underwriting costs incurred in obtaining general insurance premiums. These costs are recognised in profit or loss as discussed in note 3(l)(i).

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

(c) Levies and charges

Levies and charges imposed on the Company by various authorities are expensed in profit or loss on a basis consistent with the recognition of premium revenue. These include fire service levies, Medical Care and Injury Services Levy, NSW Insurance Protection Tax and Workers' Compensation levies. The portion of levies and charges payable at reporting date relating to unearned premium is recorded as other deferred insurance asset. A liability is recognised for levies and charges payable at the reporting date.

(d) Claims expense

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

(e) Outwards reinsurance premium expense

Premiums ceded to reinsurers are recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

(f) Income tax

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

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.

Note 3. Significant accounting policies (continued)

(f) Income tax (continued)

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.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes or interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law 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 Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities may impact tax expense in the period that such a determination is made.

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.

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.

Tax consolidations

Suncorp Group Limited is the head entity in the tax consolidated group comprising all its Australian wholly-owned subsidiaries. Consequently, all members of the tax-consolidated group are taxed as a single 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 tax payer. 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 tax payer reasonably adjusted for certain intragroup 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 the financial reports in respect of this component of the agreement as this outcome is considered remote.

Taxation of financial arrangements

Compliance with the TOFA legislation is mandatory for the tax consolidated group for the current year. The Group has accepted the default method of accruals or realisation and has not made any elections regarding transitional financial arrangements or other elective timing methods.

(g) Goods and services tax

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

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

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

Note 3. Significant accounting policies (continued)

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on deposit 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 in the statement of financial position unless there is a right of offset

(i) Non-derivative financial assets

(i) 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 include: investment securities and financial assets backing general insurance liabilities.

(ii) Loans and receivables

Loans and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised on the date that they originated at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

(iii) General insurance activities

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

<u>Financial assets backing general insurance liabilities</u>

The Company has designated financial assets held in portfolios intended to match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. These financial assets are designated at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy. They include investment securities and receivables from policyholders, intermediaries and reinsurers and investment-related receivables.

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

<u>Financial assets not backing general insurance liabilities</u>

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

Investment securities have been designated at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis.

Receivables related to investment securities are measured at each reporting date at amortised cost using the effective interest rate method less impairment.

(iv) Disclosures

All investment securities held to back general insurance liabilities and held for trading are highly liquid securities. Despite some of these securities having maturity dates beyond the next 12 months, as they are highly liquid in nature and are actively traded, they have been classified in the statement of financial position as current.

Note 3. Significant accounting policies (continued)

(i) Non-derivative financial assets (continued)

(v) Derecognition

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.

(j) Derivative financial instruments

The Company holds derivative financial instruments to manage the Company's assets and liabilities or as part of the Company's investment activities. Derivatives may include foreign exchange contracts, forward rate agreements and interest rate and currency 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, else discounted cash flow models, broker and dealer price quotations or option pricing models as appropriate. They are classified and accounted for as financial assets at fair value through profit or loss (refer note 3(i)*(i)*).

(k) Intangible assets

(i) Initial recognition and measurement

Intangible assets are recognised at cost less any accumulated amortisation and any accumulated impairment losses. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at the acquisition date.

Goodwill

Goodwill is recognised at cost from business combinations and is subsequently measured at cost less accumulated impairment loss.

(l) Deferred insurance assets

(i) Deferred acquisition costs

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

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

Deferred acquisition costs are recognised as assets to the extent that the related unearned premiums exceed the sum of the deferred acquisition costs and the present value of both future expected claims and settlement costs, including an appropriate risk margin. Where there is a shortfall, the deferred acquisition cost asset is written down and if insufficient, an unexpired risk liability is recognised (refer to note 3(p)).

Note 3. Significant accounting policies (continued)

(l) Deferred insurance assets (continued)

(ii) Deferred reinsurance premiums

The amount deferred represents the future economic benefit to be received from reinsurance contracts. The amortisation of deferred reinsurance premium is in accordance with the pattern of reinsurance service received.

(m) Impairment

(i) 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.

(ii) Receivables

An impairment loss is recognised in respect of financial assets 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.

(iii) Non-financial assets

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

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

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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

Note 3. Significant accounting policies (continued)

(n) Non-derivative financial liabilities

(i) Financial liabilities 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. This includes short-term borrowings and subordinated notes that are not a hedged item in an effective hedging relationship.

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

(o) Outstanding claims liabilities

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date and includes an additional risk margin to allow for the inherent uncertainty in the central estimate. The details of risk margin applied and the process of determining the risk margin is set out in note 5.

Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and the direct and indirect costs of settling those claims.

(p) Liability adequacy test

At each reporting date, the Company assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less any related deferred acquisition costs, then the unearned premium liability is deemed to be deficient.

Any deficiency is recognised immediately in profit or loss. The deficiency is recognised first by writing down any deferred acquisition costs, with the excess being recorded in the statement of financial position as an unexpired risk liability.

(q) Share capital

Ordinary shares are classified as equity.

(i) Repurchase of share capital

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

(ii) Dividends

A 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 period but not distributed at reporting date.

Where a dividend is declared post-reporting date but prior to the date of the financial reports, disclosure of the declaration is made in the financial reports but no provision is made.

(iii) Transaction costs

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

Note 3. Significant accounting policies (continued)

(r) Contingent liabilities and contingent assets

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

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

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

Note 4. Critical accounting estimates and judgements

Significant estimates and judgements are made by the Company to value certain key asset and liability amounts disclosed in the financial reports. These estimates and judgements are continually being evaluated and are based on historical experience and other factors. These include expectations of future events that are believed to be reasonable under the circumstances.

The key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out in note 21 Liability adequacy test, note 25 Financial instruments, note 26 Derivative financial instruments and below.

(a) Outstanding claims liability

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

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

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

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

Details of specific actuarial techniques and assumptions used in calculating the outstanding claims liability at each reporting date are described in note 5.

(b) Assets arising from reinsurance contracts and other recoveries

Estimates of assets arising from reinsurance and other recoveries are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk.

(c) Assets arising from insurance managed funds contracts

Insurance managed fund fees receivable are based on management’s best estimate of the likely fee at year end. There is a significant amount of judgement involved in the estimation process of the fees receivable which are not finalised for a number of years.

Note 4. Critical accounting estimates and judgements (continued)

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

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

Note 5. Actuarial assumptions and methods

The Company divides its business into two classes: Personal and Commercial.

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

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

(a) Assumptions

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

	2012		2011	
	Personal	**Commercial**	**Personal**	**Commercial**
Weighted average term to settlement (years)	0.6	4.9	0.7	5.3
Economic inflation rate	4.0%	4.0%	4.1%	4.5%
Superimposed inflation rate	n/a	2.1%	n/a	2.2%
Discount rate	2.6%	3.0%	4.8%	5.2%
Claims handling expense ratio	5.8%	4.1%	6.5%	4.1%
Risk margin	9.5%	18.4%	12.0%	20.2%

(i) Weighted average term to settlement

The weighted average term to settlement is calculated separately by class of business and is based on historic settlement patterns.

(ii) Economic and superimposed inflation

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

(iii) Discount rate

Projected payments are discounted at a risk free rate to allow for the time value of money. Discount rates are derived from market yields on Commonwealth Government securities at the balance date.

(iv) Claims handling expense ratio

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

Note 5. Actuarial assumptions and methods (continued)

(v) Risk margin

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

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated allowing for diversification in order to arrive at an overall position which is intended to have approximately 88% probability of sufficiency (2011: 87%).

The overall risk margin applied, allowing for diversification was 17.5% (2011: 20.0%).

(b) Sensitivity analysis

(i) Summary

The Company conducts sensitivity analyses to quantify the exposure to the risk of changes in the key underlying assumptions. Sensitivity analysis is conducted on each variable, whilst holding all other variables constant.

(ii) Impact of changes in key variables

The table below summarises the sensitivity of the profit (loss) before tax and equity reserves to changes in key variables.

		Financial Impact (1)			
Variable		**2012**		**2011**	
	Movement in variable %	**Profit / (loss) before tax $m**	**Equity reserves $m**	**Profit / (loss) before tax $m**	**Equity reserves $m**
Weighted average term to settlement (years)	+0.5	(27.7)	-	(10.4)	-
	-0.5	27.3	-	10.3	-
Inflation rate	+1	(67.0)	-	(54.4)	-
	-1	61.9	-	50.6	-
Discount rate	+1	62.6	-	50.3	-
	-1	(69.7)	-	(55.5)	-
Claims handling expense ratio	+1	(15.5)	-	(13.2)	-
	-1	15.5	-	13.2	-
Risk margin	+1	(16.2)	-	(13.8)	-
	-1	16.2	-	13.8	-

(1) Amounts are net of reinsurance

Note 6. Risk management

The Company's financial condition and operating activities are affected by a number of key risks.

(a) General risk management framework

The Company is part of the Suncorp Group Limited group of companies ("Suncorp Group" or "Suncorp") and follows the Suncorp Group's risk management objectives and structure as described below.

The Board and management recognise that effective risk management is considered to be critical to the achievement of the Group's 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 Suncorp Group.

An Enterprise Risk Management Framework (ERMF) is in place for the Suncorp 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:

- Suncorp'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,
- Suncorp's Policy and Compliance Frameworks, and
- The risk management process.

The Three Lines of Defence model of accountability for the Suncorp Group involves:

Line of Defence	Responsibility of	Accountable for
First – Manage risk and comply with Suncorp Group frameworks, policies and risk appetite	All business functions 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	Suncorp Chief Risk Officer, Line of Business Chief Risk Officers, risk management staff, and risk policy owners	• Design, implement and manage the ongoing maintenance of Suncorp 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 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.

In addition to the accountabilities as described above, the Senior Leadership Team, consisting of the Suncorp Chief Executive Officer and all Suncorp Executives, provide executive oversight and direction-setting across Suncorp's internal control environment and risk management frameworks. The Suncorp 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 General Insurance line of business also has an Asset and Liability Committee (ALCO) and a Risk & Governance Committee (RGC). The ALCO provides effective governance over aspects of the risk framework designed to optimise the long-term returns achieved by asset portfolios within any risk appetite or parameters established by the Board. The primary role of the RGC is to oversee the management of governance and other non-financial aspects of selected risks arising from the activities of the business within the Board approved risk parameters: Insurance Risk, Compliance Risk, Operational Risk and Strategic Risk.

Note 6. Risk management (continued)

(a) General risk management objectives and structure (continued)

The Group includes entities subject to APRA regulation and consequently prepares a Risk Management Strategy approved by the Board and submitted to APRA annually. The Risk Management Strategy describes the strategy adopted by the Board for managing risk, including the risk appetite, policies, procedures, management responsibilities and controls.

The key risks addressed by the ERMF are defined below:

Key risks	Definition
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 and 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
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 investments 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.

Note 6. Risk management (continued)

(b) Insurance risk management

(i) 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;
- managing of risk exposures using various analyses and valuation techniques, including stochastic modelling, to calculate the capital required under adverse risk scenarios; and
- the monitoring of natural disasters such as floods, storms, earthquakes and other catastrophes. Exposures to such risks are monitored using catastrophe models.

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, geographical segments and the use of reinsurer coverage. Catastrophe insurance is also purchased to ensure that any accumulation of losses from one area is protected.

(ii) Terms and conditions of insurance business

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

(c) Credit risk

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

Key sources of credit risk	How are these managed
Premiums receivable	Outstanding premiums on policies which are generally paid on a monthly instalment basis. Late payments will result in the cancellation of insurance contract with the policy holder, eliminating both the credit risk and insurance risk for the unpaid balance.
Investments in financial instruments	Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings.
Reinsurance recoveries	Reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market. Concentration of credit risk is mitigated by placement of cover with a number of reinsurers with Standard and Poor's (or equivalent) credit ratings of A– or better, with participation limits and minimum security requirements imposed.

Note 6. Risk management (continued)

(c) Credit risk (continued)

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures, as at the end of financial year, except for derivatives. The fair value of derivatives are 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 26.

The following table provides information regarding credit risk exposure of 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	Not Rated $m	Total $m
2012							
Cash and cash equivalents	-	0.6	27.9	-	-	-	28.5
Premiums outstanding	-	-	-	-	-	607.1	607.1
Amounts due from reinsurers	-	-	12.4	-	-	-	12.4
Other receivables	-	-	-	-	-	19.9	19.9
Amounts due from other related parties	-	-	49.6	-	-	-	49.6
Derivative assets	-	6.2	0.9	-	-	-	7.1
Reinsurance and other recoveries receivable	90.8	26.9	25.1	0.1	-	143.8	286.7
Investment securities	996.9	834.4	348.4	28.5	-	288.5	2,496.7
Accrued interest	6.5	11.6	6.4	0.5	-	-	25.0
	1,094.2	879.7	470.7	29.1	-	1,059.3	3,533.0
2011							
Cash and cash equivalents	-	3.6	33.2	-	-	-	36.8
Premiums outstanding	-	-	-	-	-	605.3	605.3
Amounts due from reinsurers	-	-	0.1	-	-	0.1	0.2
Other receivables	-	-	-	-	-	9.3	9.3
Amounts due from controlling entities	-	-	14.1	-	-	-	14.1
Amounts due from other related parties	-	-	18.1	-	-	2.4	20.5
Derivative assets	-	3.2	1.0	-	-	-	4.2
Reinsurance and other recoveries receivable	79.0	34.0	112.2	-	-	125.3	350.5
Investment securities	1,079.8	954.4	228.7	26.8	0.5	-	2,290.2
Accrued interest	8.7	14.4	4.4	0.5	-	-	28.0
	1,167.5	1,009.6	411.8	27.3	0.5	742.4	3,359.1

Note 6. Risk management (continued)

(c) Credit risk (continued)

The following table provides information regarding the carrying value of the Company's financial assets that have been impaired and the ageing of those that are past due but not impaired at the reporting date. All other receivables are neither past due nor impaired. An amount is considered to be past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis.

	Neither past due nor impaired	Past due but not impaired					
		0-3 mths	3-6 mths	6-12 mths	> 12 mths	Impaired	Total
	$m	$m	$m	$m	$m	$m	$m
2012							
Premiums outstanding	572.6	15.0	8.6	3.5	3.6	3.8	607.1
Amounts due from reinsurers	12.4	-	-	-	-	-	12.4
	585.0	15.0	8.6	3.5	3.6	3.8	619.5
2011							
Premiums outstanding	573.4	14.7	9.9	1.8	1.3	4.2	605.3
Amounts due from reinsurers	0.1	-	-	0.1	-	-	0.2
	573.5	14.7	9.9	1.9	1.3	4.2	605.5

Receivables neither past due nor impaired in the above tables are either intercompany receivables rated A or not rated according to Standard and Poor's counterparty credit ratings.

The Company does not generally expect any counter party to fail to meet their obligations given their credit ratings but does obtain collateral in the form of letters of credit or other security types for certain amounts due from reinsurers recoveries in order to meet regulatory capital requirements.

(d) Market risk

(i) Interest rate risk

Interest rate risk exposure arises mainly from investment in interest-bearing securities and from ongoing valuation of insurance liabilities. The investment portfolios hold significant interest-bearing securities in support of corresponding outstanding claims liabilities and are invested in a manner consistent with the expected duration of claims payments. Interest rate risk is also managed by the controlled use of interest rate derivative instruments. 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.

Note 6. Risk management (continued)

(d) Market risk (continued)

(i) Interest rate risk (continued)

The movements in the interest rates used in the sensitivity analysis for 2012 have been revised to reflect an updated assessment of the reasonable possible changes in interest rates over the next twelve months given renewed observations and experience in investment markets during the financial year.

	2012			2011		
	Carrying amount at Jun-12 $m	Movement in variable bp	Profit / (loss) after tax(1) $m	Carrying amount at Jun-11 $m	Movement in variable bp	Profit / (loss) after tax(1) $m
Interest bearing investment assets	2,496.7	+150	(83.9)	2,290.2	+150	(64.3)
		-100	56.0		-60	25.7
Net derivative assets/(liabilities)	(6.1)	+150	-	3.8	+150	-
		-100	-		-60	-

(1) Calculated using a corporate tax rate of 30%

There is no impact on equity reserves. The effect of interest rate movements on the Company's provision for outstanding claims is disclosed in note 5.

(ii) Equity risk

The Company is exposed to equity risk through investments in international and domestic equity trusts. A sensitivity analysis showing the impact on profit or loss for price movements for exposures as at the reporting date with all other variables remaining constant:

	2012			2011		
	Carrying amount at Jun-12 $m	Movement in variable %	Profit / (loss) after tax(1) $m	Carrying amount at Jun-11 $m	Movement in variable %	Profit / (loss) after tax(1) $m
Australian equities	36.0	+20	5.1	-	-	-
		-20	(5.1)		-	-
International equities	35.3	+20	4.9	-	-	-
		-20	(4.9)		-	-

(1) Calculated using a corporate tax rate of 30%

There is no impact on equity reserves.

Note 6. Risk management (continued)

(d) Market risk (continued)

(iii) Credit spread risk

The Company 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 the Company's profit or loss for its exposure as at the year end.

The movement in the credit spread used in the sensitivity analysis for 2012 have been revised to reflect updated assessment of the reasonable possible changes in credit spread over the next twelve months given renewed observations and experience in the investment markets during the financial year.

	2012			2011		
	Carrying amount at Jun-12 $m	Movement in variable bp	Profit (loss) after tax[(1)] $m	Carrying amount at Jun-11 $m	Movement in variable bp	Profit (loss) after tax[(1)] $m
Credit exposure (excluding semi-government)	1,153.2	+100	(20.4)	1,380.7	+60	(13.4)
		-75	15.3		-30	6.7
Credit exposure (semi-government)	359.2	+40	(6.4)	318.8	+20	(2.1)
		-40	6.4		-10	1.0

(1) Calculated using a corporate tax rate of 30%

Note 6. Risk management (continued)

(e) 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;
- Investment funds set aside within the portfolio that can be realised to meet significant claims payment obligations;
- In the event of a major catastrophe, immediate cash access is available under the terms of reinsurance arrangements; and
- Mandated liquidity limits imposed on the Company.

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 outstanding general insurance claims 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	Total cash flows $m
2012					
Payables	266.6	246.3	20.3	-	266.6
Derivative payable - net settled	13.2	-	0.9	12.3	13.2
Net discounted outstanding claims liabilties	1,883.0	595.0	916.0	372.0	1,883.0
Unearned premium liabilities	955.6	955.6	-	-	955.6
	3,118.4	1,796.9	937.2	384.3	3,118.4
2011					
Payables	315.2	297.0	18.2	-	315.2
Derivative payable - net settled	0.4	0.4	-	-	0.4
Net discounted outstanding claims liabilties	1,582.9	476.2	796.8	309.9	1,582.9
Unearned premium liabilities	914.3	914.3	-	-	914.3
	2,812.8	1,687.9	815.0	309.9	2,812.8

Note 7. Income

	2012 $m	2011 $m
Insurance revenue		
Premium revenue	1,706.0	1,633.9
Reinsurance and other recoveries revenue	82.4	149.8
Other recoveries	133.1	135.7
Reinsurance and other recoveries revenue	215.5	220.5
Reinsurance commission revenue	0.6	0.4
	1,922.1	1,854.8
Investment income		
Interest received, or due and receivable:		
Related entities	2.6	2.1
Other entities	115.6	127.1
Changes in fair value of investments designated as fair value through profit or loss:		
Realised	19.2	1.9
Unrealised	68.2	12.0
Trust distributions income	17.7	9.2
Other net investment income	0.2	0.2
	223.5	152.5
Investment income on insurance funds	192.4	116.3
Investment income on shareholders funds	31.1	36.2
	223.5	152.5
Fee for service and other income		
Insurance managed fund income	81.9	102.0
Other net income	11.7	20.7
	93.6	122.7
Total income	2,239.2	2,130.0

Note 8. Incurred claims

(a) Gross incurred claims

	2012 $m	2011 $m
Direct	1,421.4	1,241.1
Inwards reinsurance	-	(1.4)
Gross claims incurred	1,421.4	1,239.7

(b) Net incurred claims

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.

	2012 Current Year $m	2012 Prior Years $m	2012 Total $m	2011 Current Year $m	2011 Prior Years $m	2011 Total $m
Direct business						
Gross claims incurred and related expenses						
Undiscounted	1,461.5	(187.2)	1,274.3	1,506.6	(251.9)	1,254.7
Discount and discount movement	(50.5)	197.6	147.1	(84.1)	70.5	(13.6)
Gross claims incurred discounted	1,411.0	10.4	1,421.4	1,422.5	(181.4)	1,241.1
Reinsurance and other recoveries						
Undiscounted	(241.9)	42.7	(199.2)	(313.1)	90.3	(222.8)
Discount and discount movement	5.7	(22.0)	(16.3)	10.4	(9.5)	0.9
Reinsurance and other recoveries discounted	(236.2)	20.7	(215.5)	(302.7)	80.8	(221.9)
Net incurred claims	1,174.8	31.1	1,205.9	1,119.8	(100.6)	1,019.2

	2012 Current Year $m	2012 Prior Years $m	2012 Total $m	2011 Current Year $m	2011 Prior Years $m	2011 Total $m
Inwards reinsurance						
Gross claims incurred and related expenses						
Undiscounted	-	-	-	-	(1.4)	(1.4)
Discount and discount movement	-	-	-	-	-	-
Gross claims incurred discounted	-	-	-	-	(1.4)	(1.4)
Reinsurance and other recoveries						
Undiscounted	-	-	-	-	1.4	1.4
Discount and discount movement	-	-	-	-	-	-
Reinsurance and other recoveries discounted	-	-	-	-	1.4	1.4
Net incurred claims	-	-	-	-	-	-
Total net incurred claims	1,174.8	31.1	1,205.9	1,119.8	(100.6)	1,019.2

Note 8. Incurred claims (continued)

(b) Net incurred claims (continued)

Explanation of material variances – Direct business

The impact of movements in prior year net provisions on the net incurred cost for 2012 amounted to an increase of $31.1 million. This was primarily due to decreases in the discount rate applied to outstanding payments.

Quantification of the financial effect of changes in claims assumptions, experience and risk margins are set out in note 5 (b)*(ii)*.

Note 9. Underwriting and other operating expenses

	2012 $m	2011 $m
Other underwriting expenses		
Equipment and occupancy expenses		
Other occupancy costs	8.2	10.9
Total equipment and occupancy costs	8.2	10.9
Staff expenses		
Staff expenses	65.6	78.2
Total staff expenses	65.6	78.2
Other expenses		
Levies and charges	109.3	96.7
Technology	4.4	6.5
Marketing	8.3	9.7
Communications	4.7	5.6
Other	19.0	27.0
Total other expenses	145.7	145.5
Total other underwriting expenses	219.5	234.6
Other operating expenses		
Insurance managed fund expenses	70.3	83.5
Other	9.8	31.9
Total other operating expenses	80.1	115.4

All employees of GIO General Limited are employed by a related entity and the associated staff expenses are recharged to the Company.

Note 10. Income tax

(a) Income tax expense

	2012 $m	2011 $m
Recognised in the profit or loss		
Current tax expense		
Current period	30.2	46.6
Adjustments for prior years	2.2	-
	32.4	46.6
Deferred tax expense		
Origination and reversal of temporary differences	14.8	3.0
Total income tax expense in the profit or loss	47.2	49.6
Reconciliation between income tax expense and profit before tax		
Profit before tax	157.6	154.3
Income tax using the domestic corporation tax rate of 30% (2011: 30%)	47.2	46.3
Other	-	3.3
	47.2	49.6
Income tax expense on pre-tax net profit	47.2	49.6

(b) Current tax liabilities

In accordance with the tax consolidation legislation, the ultimate parent entity 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

Recognised 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
Provisions	21.3	18.8	-	-	21.3	18.8
Other items	1.2	1.4	(13.9)	(15.9)	(12.7)	(14.5)
Other investments	-	-	(27.8)	(8.7)	(27.8)	(8.7)
Tax assets / (liabilities)	22.5	20.2	(41.7)	(24.6)	(19.2)	(4.4)
Set off of tax	(22.5)	(20.2)	22.5	20.2	-	-
Net tax assets / (liabilities)	-	-	(19.2)	(4.4)	(19.2)	(4.4)

There are no unrecognised deferred tax assets and liabilities.

Note 10. Income tax (continued)

(d) Tax consolidation

Suncorp Group Limited is the head company of a tax-consolidated group comprising of all Australian wholly-owned entities within the Suncorp Group. In the opinion of the directors, this limits the joint and severable liability of the wholly-owned subsidiaries in the case of default by the head company of the tax-consolidated group. Under the tax funding agreement, the wholly-owned entities fully compensate Suncorp Group Limited for any current tax payable assumed.

Note 11. Cash and cash equivalents

	2012 $m	2011 $m
Cash at bank and on hand	26.7	35.1
Deposits at call	1.8	1.7
Total cash and cash equivalents in the statement of cash flows	28.5	36.8

Note 12. Receivables

	2012 $m	2011 $m
Trade receivables		
Premiums outstanding	607.1	605.3
Amounts due from reinsurers	12.4	0.2
	619.5	605.5
Other receivables		
Amounts due from controlling entity	-	14.1
Amounts due from other related parties	50.7	20.5
Other receivables	19.9	9.3
	70.6	43.9
Total receivables	690.1	649.4
Current	552.5	536.7
Non-current	137.6	112.7
	690.1	649.4
Trade receivables designated at fair value through profit or loss		
Book value of trade receivables	623.3	609.7
Change in fair value due to credit risk	(3.8)	(4.2)
Carrying value at end of financial year	619.5	605.5

Note 13. Investment securities

	2012 $m	2011 $m
Investment securities designated at fair value through profit or loss		
Debentures and corporate bonds	1,268.6	1,511.3
Government and semi-government securities	939.6	620.6
Equity unit trusts	71.3	-
Other interest bearing securities	288.5	158.3
Total investment securities	2,568.0	2,290.2

Note 14. Reinsurance and other recoveries receivable

	2012 $m	2011 $m
Expected future reinsurance and other recoveries undiscounted	315.1	395.2
Discount to present value	(28.4)	(44.7)
Total reinsurance and other recoveries receivable	286.7	350.5
Current	124.7	207.3
Non-current	162.0	143.2
	286.7	350.5
Reconciliation of movements in reinsurance and other recoveries receivable		
Reinsurance and other recoveries receivable at beginning of financial year	350.5	371.5
Reinsurance and other recoveries revenue	215.5	220.5
Reinsurance and other recoveries received	(279.3)	(241.5)
Reinsurance and other recoveries receivable at end of financial year	286.7	350.5

Note 15. Deferred insurance assets

	2012 $m	2011 $m
Deferred acquisition costs	108.7	104.3
Reconciliation of movements in deferred acquisition costs		
Deferred acquisition costs at beginning of financial year	104.3	104.0
Acquisition costs deferred	215.3	215.5
Amortisation charged to the profit or loss	(210.9)	(215.2)
Deferred acquisition costs at end of financial year	108.7	104.3
Deferred reinsurance assets	144.9	155.5
Reconciliation of movements in deferred reinsurance assets		
Deferred reinsurance assets at beginning of financial year	155.5	0.4
Reinsurance premiums paid during the year	134.9	321.7
Reinsurance premiums charged to the profit or loss	(145.5)	(166.6)
Deferred reinsurance assets at end of financial year	144.9	155.5
Other deferred expenses (levies and charges)	58.5	51.2
Reconciliation of movements in other deferred expenses		
Other deferred expenses at beginning of financial year	51.2	52.5
Other expenses deferred	116.6	94.9
Amortisation charged to the profit or loss	(109.3)	(96.2)
Other deferred expenses at end of financial year	58.5	51.2
Total deferred insurance assets	312.1	311.0

Note 16. Other assets

	2012 $m	2011 $m
Accrued interest	25.0	28.0
Total other assets	25.0	28.0

Note 17. Intangible assets

Goodwill	2012 $m	2011 $m
Cost	9.0	9.0
Less: accumulated amortisation and impairment losses	(4.9)	(4.9)
Balance at the end of the financial year	4.1	4.1
Movements in intangible assets		
Balance at beginning of financial year	4.1	4.1
Balance at end of financial year	4.1	4.1

Impairment testing

The goodwill relates to a portfolio of personal insurance policies. Portfolio goodwill is taken into account in the Liability Adequacy Test and therefore excluded from the scope of the impairment testing requirements of AASB 136 *Impairment of Assets.*

Note 18. Payables and financial liabilities

	2012 $m	2011 $m
Payables		
Trade and other creditors	63.5	57.8
Amounts due to reinsurers	147.8	165.1
Amounts due to ultimate parent entity	1.2	28.9
Amounts due to controlling entity	2.9	-
Amounts due to other related entities	33.3	38.9
Amounts due to controlled entities	6.9	5.4
Unearned income	12.1	19.1
Total payables and financial liabilities	267.7	315.2
Current	247.4	297.0
Non-current	20.3	18.2
	267.7	315.2

Note 19. Outstanding claims liabilities

(a) Outstanding claims liabilities

	2012 $m	2011 $m
Gross central estimate - undiscounted	2,025.3	1,929.2
Risk margin	331.3	348.1
Claims handling expenses	75.2	71.2
	2,431.8	2,348.5
Discount to present value	(262.1)	(415.1)
Gross outstanding claims liabilities - discounted	2,169.7	1,933.4
Current	719.7	683.7
Non-current	1,450.0	1,249.7
	2,169.7	1,933.4

(b) Reconciliation of movement in discounted gross outstanding claims liabilities

	2012 $m	2011 $m
Opening net outstanding claims liabilities	1,582.9	1,518.2
Prior periods		
Claims payments	(406.1)	(428.8)
Discount unwind	52.7	47.4
Margin release on prior periods	(56.6)	(49.6)
Incurred claims due to changes in assumptions and experience	(63.8)	(97.5)
Change in discount rate	98.8	(0.9)
Current period		
Incurred claims	1,174.8	1,119.8
Claims payments	(499.7)	(525.7)
Closing net outstanding claims liabilities	1,883.0	1,582.9
Discounted reinsurance recoveries on outstanding claims liabilities and other recoveries	286.7	350.5
Gross outstanding claims liabilities - discounted	2,169.7	1,933.4

Note 19. Outstanding claims liabilities (continued)

(c) Claims development tables

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the ten most recent accident years. Amounts are net of reinsurance and third party recoveries.

Accident year	**Prior $m**	**2003 $m**	**2004 $m**	**2005 $m**	**2006 $m**	**2007 $m**	**2008 $m**	**2009 $m**	**2010 $m**	**2011 $m**	**2012 $m**	**Total $m**
Estimate of ultimate claims cost:												
At end of accident year		274.9	293.2	337.4	361.4	347.7	358.3	350.8	416.5	448.1	479.7	
One year later		262	282.5	295.5	318.2	339.4	322.4	326.2	404.0	424.4		
Two years later		236.6	245.9	264.2	294.7	312.1	297.8	298.7	374.1			
Three years later		207.3	231.5	258.3	281.0	285.6	291.4	294.7				
Four years later		190.7	233.1	250.2	255.7	264.8	284.2					
Five years later		180.5	228.0	230.3	245.8	257.9						
Six years later		173	218.2	231.8	246.0							
Seven years later		172	203.5	235.7								
Eight years later		170	196.6									
Nine years later		170.6										
Current estimate of cumulative claims cost		170.6	196.6	235.7	246.0	257.9	284.2	294.7	374.1	424.4	479.7	
Cumulative payments		(162.0)	(189.4)	(214.1)	(215.6)	(213.6)	(208.3)	(189.9)	(166.7)	(128.2)	(50.5)	
Outstanding claims - undiscounted	250.3	8.6	7.2	21.6	30.4	44.3	75.9	104.8	207.4	296.2	429.2	1,475.9
Discount to present value	(78.3)	(0.8)	(0.8)	(1.8)	(2.5)	(3.3)	(5.1)	(6.5)	(13.8)	(21.7)	(35.2)	(169.8)
Outstanding claims - long tail	172.0	7.8	6.4	19.8	27.9	41.0	70.8	98.3	193.6	274.5	394.0	1,306.1
Outstanding claims - short tail												230.5
Claims handling expenses												67.0
Risk margin												279.4
Total net outstanding claims liabilities												1,883.0
Reinsurance and other recoveries on outstanding claims liabilities												286.7
Total gross outstanding claims												2,169.7

The reconciliation of the movement in outstanding claims liabilities and the claims development table have been presented on a net of reinsurance and other recoveries basis to give the most meaningful insight into the impact on the profit or loss. Short-tail claims are disclosed separately as they are generally subject to less uncertainty since they are normally reported soon after the incident and are generally settled within twelve months following the reported incident.

Note 20. Unearned premium liabilities

	2012 $m	**2011 $m**
Unearned premium liabilities	955.6	914.3
Reconciliation of movements in unearned premium liabilities		
Unearned premium liabilities at beginning of financial year	914.3	890.3
Premiums written during the year	1,747.3	1,657.9
Premiums earned during the year	(1,706.0)	(1,633.9)
Unearned premium liabilities at end of financial year	955.6	914.3

Note 21. Liability adequacy test

The Liability Adequacy Test ("LAT") assesses whether the net unearned premium liability less any related deferred acquisition costs is sufficient to cover future claims costs for in-force policies. Future claims costs are calculated at present value of the expected cash flows relating to future claims, and includes a risk margin to reflect inherent uncertainty in the central estimate for each portfolio of contracts, being personal insurance and commercial insurance. The test is based on prospective information and consequently is heavily dependent on assumptions and judgements.

	2012			2011		
	Personal $m	Commercial $m	Total $m	Personal $m	Commercial $m	Total $m
Unearned premium liabilities	447.3	449.8	897.1	439.3	423.8	863.1
Related intangible assets	(4.1)	-	(4.1)	(4.1)	-	(4.1)
Related deferred acquisition costs	(49.2)	(61.8)	(111.0)	(50.8)	(53.5)	(104.3)
Related reinsurance asset	(6.3)	(0.3)	(6.6)	-	(0.4)	(0.4)
	387.7	387.7	775.4	384.4	369.9	754.3
Central estimate of present value of expected future cashflows arising from future claims	340.7	385.6	726.3	359.5	334.7	694.2
Risk margin	7.1	9.0	16.1	8.4	8.9	17.3
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	(41.2)	(4.6)	(45.8)	(46.5)	(1.3)	(47.8)
	306.6	390.0	696.6	321.4	342.3	663.7
Net surplus / (deficiency)	81.1	(2.3)	78.8	63.0	27.6	90.6
Amounts recognised in the acquisition cost						
Liability adequacy test deficiency	-	(2.3)	(2.3)	-	-	-
	-	(2.3)	(2.3)	-	-	-
Risk margin	2.4%	2.4%	2.4%	2.7%	2.7%	2.7%

The risk margin included in the Company's expected future cash flows for future claims as a percentage of the central estimate is 2.4% (2011: 2.7%). The risk margin was determined to give a probability of adequacy of approximately in the range of 57% - 64% (2011: 57% - 64%) and differs from the 88% (2011: 87%) probability of adequacy adopted in determining the outstanding claims liability. The reason for these differences is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability carried in the statement of financial position.

Note 22. Share capital

(a) Movement in number of issued shares

	2012 Shares	2011 Shares
Issued and fully paid shares		
Balance at beginning of financial year	290,152,544	297,652,544
Share buyback	(3,400,000)	(7,500,000)
Balance at end of financial year	286,752,544	290,152,544

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

(b) Ordinary shares

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

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

Note 23. Dividends

	2012 $m	2011 $m
Ordinary shares		
Dividend paid September 2010 $0.51 per fully paid share	-	147.0
Dividend paid September 2011 $0.23 per fully paid share	67.9	-
Dividend paid March 2012 $0.06 per fully paid share	18.8	-
	86.7	147.0

Note 24. Reconciliation of net cash flows from operating activities

	2012 $m	2011 $m
Profit after income tax	110.4	104.7
Add / (subtract) items classified as investing activities:		
Impairment expense	-	11.0
Movement in financial assets at fair value through profit or loss	(68.2)	-
Add / (subtract) non-cash items:		
Change in assets and liabilities		
Change in receivables	(40.7)	(36.4)
Change in reinsurance and other recoveries receivable	63.8	21.0
Change in deferred insurance assets	(1.1)	(154.1)
Change in other assets	3.0	(1.5)
Change in unearned premium liabilities	41.3	24.0
Change in outstanding claims liabilities	236.3	43.7
Change in payables and financial liabilities	(47.5)	133.9
Change in deferred tax liabilities	14.8	2.8
Net cash from operating activities	312.1	149.1

Note 25. Financial instruments

Refer note 26 for specific discussion on derivative financial instruments.

(a) Fair values

The Company classifies fair values of financial instruments using the fair value hierarchy in order to reflect the most significant input used in their estimation:

- **Level 1** - inputs that are (unadjusted) quoted prices in active markets for identical financial instruments;
- **Level 2** - inputs other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly; and
- **Level 3** - inputs for the financial instruments that are not based on observable market data.

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

Financial assets

As cash and cash equivalents and receivables are short-term in nature their carrying value approximates their net fair value. Investment securities are determined based on quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used. The carrying value of these investment securities equates to fair value.

For all other financial assets, the carrying value is measured at amortised cost and is considered to be a reasonable estimate of fair value.

Financial liabilities

For financial liabilities which are short-term in nature, the carrying value is measured at amortised cost and is considered to be a reasonable estimate of fair value.

Derivative financial instruments

The net fair value of derivative contracts was obtained from quoted market prices, discounted cash flow models, broker and dealer price quotations or option pricing models as appropriate.

Fair values of the Company's significant financial instruments at balance date, classified by fair value hierarchy level are as follows:

	Carrying amount	Fair value analysis			Total fair value
		Level 1	Level 2	Level 3	
2012	$m	$m	$m	$m	$m
Financial assets					
Investment securities	2,568.0	453.9	2,111.5	2.6	2,568.0
Derivative assets	7.1	-	7.1	-	7.1
	2,575.1	453.9	2,118.6	2.6	2,575.1
Financial liabilities					
Derivative liabilities	13.2	-	13.2	-	13.2
	13.2	-	13.2	-	13.2
	2,561.9	453.9	2,105.4	2.6	2,561.9
2011					
Financial assets					
Investment securities	2,290.2	300.9	1,984.6	4.7	2,290.2
Derivative assets	4.2	0.1	4.1	-	4.2
	2,294.4	301.0	1,988.7	4.7	2,294.4
Financial liabilities					
Derivative liabilities	0.4	0.4	-	-	0.4
	0.4	0.4	-	-	0.4
	2,294.0	300.6	1,988.7	4.7	2,294.0

There have been no significant transfers between Level 1 and Level 2 during the financial year (2011: nil).

Note 25. Financial instruments (continued)

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

2012 **Financial assets**	**Investment securities $m**
Balance at the beginning of the financial year	4.7
Investment revenue	(0.8)
Purchases	3.4
Sales	(4.7)
Balance at the end of the financial year	2.6

Included within the above reconciliation are the following total gains or losses in respect of assets held at the end of the financial year:

	Investment securities $m
Investment revenue	
- shareholder funds	(0.8)

2011 **Financial assets**	**Investment securities $m**
Balance at the beginning of the financial year	9.7
Investment revenue	0.9
Sales	(5.9)
Balance at the end of the financial year	4.7

Included within the above reconciliation are the following total gains or losses in respect of assets held at the end of the financial year:

	Investment securities $m
Investment revenue	
- shareholder funds	0.9

For fair value measurements in Level 3 of the fair value hierarchy, there are no key inputs that, if adjusted to reasonably possible alternative, would have a material effect on profit or loss.

Note 26. Derivative financial instruments

Derivative financial instruments are used by the Company to manage interest rate and foreign exchange 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 one of the means by which these strategies are implemented. Interest rate derivatives are cost effective way to acquire the desired duration, curve or sector positioning for the investments backing the insurance liabilities.

The Risk Management Statements, approved by the Board of Directors, establish the basis on which derivative financial instruments may be used within the investment portfolios. The preparation and enforcement of the Risk Management Statements is a critical requirement for licensed insurers. The Risk Management Statements and investment mandates prohibit the use of derivatives for speculative purposes or for leveraged trading. Leverage is defined as creating a portfolio which would have sensitivity to an underlying economic or financial variable which is greater than could be achieved using only physical securities.

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

Management is responsible for ensuring that all investment mandates are within risk appetite and comply with all relevant Group policies and external laws and regulations. The investment manager is responsible for ensuring that derivative positions comply with investment mandates and any relevant law or policy. Management monitors the Investment Manager's compliance with the investment mandates including the use of derivatives.

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

	2012			2011		
	Face value	Fair value		Face value	Fair value	
		Asset	Liability		Asset	Liability
	$m	$m	$m	$m	$m	$m
Interest rate related contracts						
Interest rate options	12.2	-	-	11.6	-	(0.1)
Swaption	-	-	-	83.0	0.1	(0.3)
Interest rate swaps	432.5	6.2	(13.2)	383.5	4.1	-
Interest rate futures	80.1	0.0	-	312.8	-	-
	524.8	6.2	(13.2)	790.9	4.2	(0.4)
Equity contracts						
Equity futures	14.6	-	-	-	-	-
	14.6	-	-	-	-	-
Forward exchange contracts						
Forward foreign exchange contracts	35.3	0.9	-	-	-	-
	35.3	0.9	-	-	-	-
Total derivative exposure	574.7	7.1	(13.2)	790.9	4.2	(0.4)

Note 27. Auditor's remuneration

	2012 $'000	2011 $'000
Audit and review services		
Auditors of the Company - KPMG Australia		
Audit and review of financial reports	442.5	597.0
Other regulatory audits	117.6	147.1
	560.1	744.1
Other services		
In relation to other assurance, actuarial, taxation and non-audit services	65.0	162.6
	65.0	162.6

Fees for services rendered by the Company's auditor in relation to the statutory audit are borne by the ultimate parent entity, Suncorp Group Limited.

Note 28. Controlled entities

List of all controlled entities

	Note	Country of incorporation	Class of share	2012 %	2011 %
Parent entity					
GIO General Limited		Australia	Ordinary		
Controlled entities					
GIO Australia Pty Limited	(i)	Australia	Ordinary	100	100
GIO Workers Compensation (NSW) Pty Limited	(i)	Australia	Ordinary	100	100
GIO Workers Compensation (Victoria) Limited	(i)	Australia	Ordinary	100	100

(i) These investments form part of non-current investments not integral to insurance activities.

Note 29. Contingent liabilities

There are claims and possible claims against the Company, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been deemed necessary. 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, is 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.

Joint and several liability - 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 Taxation Office. The tax sharing agreement has effect to limit this joint and several liability to an amount relative to the Company's contribution to the group tax liability. 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.

The Company has provided a guarantee to one of its subsidiaries for reimbursement of any future operating losses.

Note 30. Financing arrangements

	2012 $m	2011 $m
Total facilities available:		
Bank overdraft	15.0	15.0
	15.0	15.0
Facilities not utilised at balance date:		
Bank overdraft	15.0	15.0
	15.0	15.0

The Company has arrangements with an external institution to allow for the overdraft of certain cash accounts. At 30 June 2012 the Company did not utilise this facility.

Group overdraft limit

The Group uses several bank accounts with a subsidiary of the ultimate parent company and employs the use of a sweeping arrangement to maximise cash and avoid overdraft balances. Any overdraft balances are repaid when they arise, and as a result, no disclosures have been made above.

Note 31. Capital adequacy

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

The Company's capital management strategy forms part of the Suncorp Group plan that uses both internal and external measures of capital. Suncorp Group is subject to minimum capital requirements imposed by APRA.

All general insurance entities that conduct insurance business in Australia are authorised by APRA and are subject to prudential standards which set out the basis for calculating their minimum capital requirement ("MCR"). The MCR is the minimum level of capital that the regulator deems must be held to meet policyowner obligations. An insurer's capital base is expected to be adequate for its size, business mix, complexity and the risk profile of its business and therefore the MCR applies a risk-based approach to capital adequacy. Licensed general insurance entities within the Suncorp Group use the standardised framework for calculating the MCR in accordance with the relevant prudential standards.

For capital adequacy purposes, a general insurer's capital base is the sum of its Tier 1 and Tier 2 capital after all specified deductions and adjustments. Tier 1 capital represents the net assets of the general insurer plus any hybrid equity instruments, less deductions such as goodwill and other intangible assets. Tier 2 capital includes certain types of debt capital instruments, such as subordinated debt. Any provisions (net of taxation impact) for outstanding claims and insurance risk in excess of the amount required to provide a level of sufficiency at 75% are classified as capital. The Company applies a risk margin to the central estimate of net outstanding claims intended to achieve 88% (2011: 87%) probability of sufficiency. General insurers are required to hold regulatory capital in excess of their MCR.

The MCR for the Company is calculated by assessing the risks inherent in the business, which comprise:

- The risk that the liability for outstanding claims is not sufficient to meet the obligations to policyowners arising from losses incurred up to the reporting date (outstanding claims risk);
- The risk that the unearned premium liability is insufficient to meet the obligations to policyowners arising from losses incurred after the reporting date on existing policies (premium liabilities risk);
- The risk that the value of investment assets has diminished (investment risk); and
- The risk of a catastrophe giving rise to major claims losses up to the retention amount under existing reinsurance arrangements (catastrophe risk).

These risks are quantified to determine the minimum capital required under the prudential standards. This requirement is compared with the regulatory capital held in the Company.

Note 31. Capital adequacy (continued)

The MCR of the Company is calculated strictly in accordance with APRA guidelines was 1.29 times (2011: 1.34 times).

The Company satisfied all externally imposed capital requirements which it is subject to during the current financial year and the prior financial year.

There were no changes in the Company's approach to capital management during the year. However, the Board approved a reduction in the long term operating target level of capital and as a result the Company redeemed 3.4 million ordinary shares at a cost of $34.0 million in April 2012. The reduction in the long- term target reflects the benefits of the non- operating holding company structure implemented across the Suncorp Group in January 2011.

	2012 $m	2011 $m
Tier 1 Capital		
Issued capital	332.8	366.8
Retained profits at end of reporting period	146.6	73.4
Technical provision in excess of liability valuation	191.4	190.1
Less: Tax effect of excess technical provisions	(57.4)	(57.0)
	613.4	573.3
Less:		
Goodwill	(4.1)	(4.1)
Total deductions from Tier 1 capital	(4.1)	(4.1)
Total capital base	609.3	569.2
Outstanding claims risk charge	248.3	208.8
Premium liabilities risk charge	124.0	116.8
Investment risk charge	104.6	90.5
Maximum event retention risk charge	10.0	10.0
Minimum capital requirement	486.9	426.1
Capital adequacy multiple	1.25	1.34

Note 32. Key management personnel disclosures

(a) Key management personnel compensation

Key management personnel ("KMP") compensation is provided by the ultimate parent entity, 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 $'000	2011 $'000
Short-term employee benefits	17,484	16,566
Long-term employee benefits	5,553	3,011
Post-employment benefits	318	1,311
Equity compensation benefits	5,199	4,787
Termination benefits	241	1,318
	28,795	26,993

Note 32. Key management personnel disclosures (continued)

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

(b) Other key management personnel transactions with the Company

Other transactions with directors, executives and their related parties are conducted on arm's length terms and conditions, and are deemed trivial or domestic in nature. These transactions are in the nature of general 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, executives or their related parties existing at the end of the reporting period.

Note 33. Other related party disclosures

(a) Identity of related parties

The immediate parent entity is Suncorp-Metway Insurance Limited and the ultimate parent entity in the wholly owned group is Suncorp Group Limited. The Company has a related party relationship with its key management personnel (see note 32) and other entities within the wholly owned group (which consists of Suncorp Group Limited and its wholly owned subsidiaries).

(b) Other related party transactions with controlled entities

Transactions between the Company and its controlled entities consisted of advances made and repaid. All these transactions were on a normal commercial basis except that some advances may be interest free.

	2012 $m	2011 $m
Current amounts payable		
Current amounts payable	6.9	5.4

(c) Other related party transactions with the ultimate parent entity

Transactions between the Company and the ultimate parent entity consisted of advances made and repaid and investment interest received. Loans advanced to or from the ultimate parent are interest-free.

	2012 $m	2011 $m
Current amounts payable (unsecured)		
Current amounts payable	0.2	0.1
Tax related amounts payable	1.0	28.8

	2012 $m	2011 $m
Revenue received		
Interest revenue	0.1	1.0

Note 33. Other related party disclosures (continued)

(d) Other related party transactions with controlling entity

Transactions between the Company and its parent entity consisted of dividends paid. Loans advanced to or from the parent entity are interest-free.

	2012 $m	2011 $m
Current amounts receivable		
Current amounts receivable	-	14.1
Current amounts payable		
Current amounts payable	2.9	-

	2012 $m	2011 $m
Dividend paid	86.7	147.0

(e) Other related party transactions with other related entities

Transactions between the Company and other related entities consisted of interest received on deposits and investment securities held, finance costs paid, investment management fees paid and advances made and repaid. All these transactions were on a normal commercial basis except that some of the advances may be interest free.

	2012 $m	2011 $m
Current amounts receivable		
Current amounts receivable	11.3	20.5
Current amounts payable		
Current amounts payable	33.3	38.9

	2012 $m	2011 $m
Non current amounts receivable		
Non current amounts receivable	39.4	-

	2012 $m	2011 $m
Revenue received		
Interest revenue	0.8	1.0
Trust distribution	9.1	9.1
Expenses paid		
Reinsurance claims expense	-	0.1
Other management fees	283.6	261.4

Note 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 GIO General Limited (the "Company"):

(a) the financial statements comprising the statements of comprehensive income, financial position, changes in equity and cash flows and including notes thereto, set out on pages 4 to 47, 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*; and

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

(c) the directors draw attention to note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors.

Dr Zygmunt E Switkowski	Patrick J R Snowball
Director	Managing Director

22 August 2012

Independent auditor's report to the members of GIO General Limited

Report on the financial report

We have audited the accompanying financial report of GIO General 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 2(a), 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.

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 GIO General 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 2(a).

KPMG

KPMG

Scott Guse

Scott Guse
Partner

Brisbane

22 August 2012