# SUNCORP-METWAY LIMITED AND SUBSIDIARIES

# ABN 66 010 831 722

## Consolidated interim financial report
## For the half-year ended 31 December 2018

Contents | Page

# DIRECTORS' REPORT

The directors present their report together with the consolidated interim financial report of the consolidated entity (the **Group**), being Suncorp-Metway Limited (the **Company**) and its subsidiaries for the half-year ended 31 December 2018 and the auditor's review report thereon. Terms that are defined appear in bold the first time they are used.



## 1. Directors

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

### Non-executive

| | |
|---|---|
| Christine F McLoughlin (Chairman) | Director since 2015, Chairman since 20 September 2018 |
| Audette E Exel AO | Director since 2012 |
| Sally A Herman | Director since 2015 |
| Simon C Machell | Director since 2017 |
| Douglas F McTaggart | Director since 2012 |
| Lindsay J Tanner | Director since 2018 |
| Sylvia Falzon | Appointed 1 September 2018 |
| Ian L Hammond | Appointed 2 October 2018 |
| Dr Zygmunt E Switkowski AO | Retired 20 September 2018 |

### Executive

| | |
|---|---|
| Michael A Cameron (CEO and Managing Director) | Executive director since 2015 (Non-executive director from 2012 to 30 September 2015) |

## 2. Dividends

A 2018 final dividend on ordinary shares of $76 million (28 cents per share) was paid on 27 August 2018. The Company paid dividends on capital notes totalling $11 million during the half-year.

A 2019 interim dividend on ordinary shares of $126 million (46 cents per share) has been determined by the directors.

Further details of dividends on ordinary shares and capital notes provided for or paid are set out in note 3 to the consolidated interim financial statements.

# 3. Review of operations

## 3.1. Overview of the Group

The Group delivered net profit after tax attributable to owners of the Company of $180 million for the half-year ended 31 December 2018 (December 2017: $184 million). Lower impairment losses and expenses were offset by lower net interest income, primarily due to continued margin pressure from heightened wholesale funding costs driven by increases in the Bank Bill Swap Rate (**BBSW**). The Group continues to invest in regulatory change and compliance, whilst continuing to enhance digital capabilities and customer experiences. This has created operational efficiencies and has in turn reduced operating expenses compared to the prior comparative period.

## 3.2. Financial position and capital structure

Net assets of the Group are $3,956 million (June 2018: $3,869 million). The movement was a result of total comprehensive income for the half-year of $181 million, offset by $76 million 2018 final dividend on ordinary shares and $11 million dividends on capital notes.

The regulatory Common Equity Tier 1 (**CET1**) ratio continued to be strong at 9.14% (June 2018: 9.01%), above the target operating range of 8.5% - 9.0% of Risk Weighted Assets.

The Group's Basel III APS 330 Public Disclosures are available at suncorpgroup.com.au/investors/reports.

## 3.3. Review of principal businesses

Net interest income decreased 2.2% to $585 million (December 2017: $598 million), resulting in the net interest margin reducing to 1.8%. Moderate growth in interest income was more than offset by margin pressure from heightened wholesale funding costs driven by a sustained elevation in BBSW. The decrease in net interest income also impacted the cost-to-income ratio which increased to 56.6%.

Operating expenses were $344 million for the half-year (December 2017: $357 million), a decrease of $13 million. This reflects the benefits from the Business Improvement Program and a reduced investment in the modernisation of the Store network which have largely been offset by the increased investment in the business relating to regulatory change and compliance. The Group continues to invest in enhancing digital capabilities and customer experience.

Impairment losses on loans and advances of $7 million (December 2017: $13 million) represent 2bps (annualised) of gross loans and advances, and reflect the sound credit quality of the lending portfolio.

Loans and advances increased to $59,031 million (June 2018: $58,598 million), due to competitive price offerings, focus on customer retention and enhanced broker partnerships. Business lending continued to grow, driven by targeted growth within well-known market segments to balance the total lending portfolio mix.

Deposits and short-term borrowings increased to $46,633 million (June 2018: $46,043 million). The Group's deposit-to-loan ratio of 66.5% remains within the target operating range of 60% to 70%. An increase in at-call deposits over the period was primarily driven by the continued delivery of enhanced customer functionality and self-service capabilities. The new Growth Saver product continued to perform strongly, achieving $517 million of growth with 48% of these deposits coming from new customers.

## 4. Events subsequent to reporting date

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established on 14 December 2017. The focus of the Royal Commission's hearings has been the actions of financial service entities, inquiring into whether any conduct of financial services entities might have amounted to misconduct and whether any conduct, practices, behaviour or business activities of financial services entities fall below community standards and expectations.

On 1 February 2019 the Commissioner's Final Report (**Final Report**) was presented to the Governor-General. The Final Report sets out 76 policy recommendations to strengthen protections for consumers, small business and rural and regional communities, enhance accountability, ensure strong and effective financial system regulators and further improve consumer and small business access to redress. The Group is currently working through the matters raised in the Final Report, including the specific findings referenced to the Group. The impact of these to Suncorp will take time to be properly understood.

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

## 5. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the half-year ended 31 December 2018.

## 6. Rounding of amounts

The Company is of a kind referred to in *Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191* dated 24 March 2016 and in accordance with that legislative instrument, amounts in the Directors' Report and consolidated interim financial report have been rounded to the nearest one million dollars unless otherwise stated.

Signed in accordance with a resolution of the directors.

C. McLoughlin

**CHRISTINE MCLOUGHLIN**

Chairman of the Board

14 February 2019

**MICHAEL CAMERON**

CEO and Managing Director

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

## To the Directors of Suncorp-Metway Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Suncorp-Metway Limited for the half-year ended 31 December 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Jillian Richards

Jillian Richards
Partner

Brisbane
14 February 2019

# CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

## For the half-year ended 31 December 2018

| | Note | Dec 2018 $M | Dec 2017 $M |
|---|---|---|---|
| Interest income | 5.1 | 1,292 | 1,270 |
| Interest expense | 5.1 | (707) | (672) |
| **Net interest income** | 5.1 | 585 | 598 |
| Other operating income | 5.2 | 23 | 34 |
| **Total net operating income** | | 608 | 632 |
| Operating expenses | | (344) | (357) |
| Impairment loss on financial assets | 7.2 | (7) | (13) |
| **Profit before income tax** | | 257 | 262 |
| Income tax expense | | (77) | (78) |
| **Profit for the period attributable to owners of the Company** | | 180 | 184 |
| | | | |
| **Other comprehensive income** | | | |
| ***Items that will be reclassified subsequently to profit or loss*** | | | |
| Net change in fair value of cash flow hedges | | 10 | (2) |
| Net change in fair value of investment securities | | (6) | - |
| Net change in fair value of available-for-sale investment securities | | - | (3) |
| Income tax (expense) benefit | | (3) | 2 |
| **Total other comprehensive income (loss) for the period** | | 1 | (3) |
| **Total comprehensive income for the period attributable to owners of the Company** | | 181 | 181 |

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

# CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

## As at 31 December 2018

| | Note | Dec 2018 $M | Jun 2018 $M |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 1,124 | 506 |
| Receivables due from other banks | | 351 | 474 |
| Trading securities | | 1,540 | 1,639 |
| Derivatives | | 381 | 224 |
| Investment securities | | 3,972 | 4,058 |
| Loans and advances | 6 | 59,031 | 58,598 |
| Due from related parties | | 370 | 362 |
| Deferred tax assets | | 47 | 45 |
| Other assets | | 184 | 199 |
| **Total assets** | | 67,000 | 66,105 |
| **Liabilities** | | | |
| Payables due to other banks | | 273 | 148 |
| Deposits and short-term borrowings | 8 | 46,633 | 46,043 |
| Derivatives | | 173 | 158 |
| Payables and other liabilities | | 340 | 423 |
| Due to related parties | | 73 | 20 |
| Securitisation liabilities | 9 | 4,278 | 4,848 |
| Debt issues | 9 | 10,602 | 9,854 |
| Subordinated notes | 9 | 672 | 742 |
| **Total liabilities** | | 63,044 | 62,236 |
| **Net assets** | | 3,956 | 3,869 |
| **Equity** | | | |
| Share capital | 10 | 2,648 | 2,648 |
| Capital notes | 11 | 550 | 550 |
| Reserves | | (267) | (298) |
| Retained profits | | 1,025 | 969 |
| **Total equity attributable to owners of the Company** | | 3,956 | 3,869 |

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

# CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

## For the half-year ended 31 December 2018

| | Note | Share capital $M | Capital notes $M | Reserves $M | Retained profits $M | Total equity $M |
|---|---|---|---|---|---|---|
| **Balance as at 1 July 2018** | | 2,648 | 550 | (298) | 969 | 3,869 |
| Impact on initial application of AASB 9 (net of tax) | 2.1 | - | - | 16 | (23) | (7) |
| Profit for the period | | - | - | - | 180 | 180 |
| Total other comprehensive income for the period | | - | - | 1 | - | 1 |
| **Total comprehensive income for the period** | | - | - | 17 | 157 | 174 |
| ***Transactions with owners, recorded directly in equity*** | | | | | | |
| Dividends paid | 3 | - | - | - | (87) | (87) |
| Transfers | | - | - | 14 | (14) | - |
| **Balance as at 31 December 2018** | | 2,648 | 550 | (267) | 1,025 | 3,956 |
| | | | | | | |
| **Balance as at 1 July 2017** | | 2,648 | 825 | (307) | 958 | 4,124 |
| Profit for the period | | - | - | - | 184 | 184 |
| Total other comprehensive loss for the period | | - | - | (3) | - | (3) |
| **Total comprehensive (loss) income for the period** | | - | - | (3) | 184 | 181 |
| ***Transactions with owners, recorded directly in equity*** | | | | | | |
| Dividends paid | 3 | - | - | - | (201) | (201) |
| Transfers | | - | - | 2 | (2) | - |
| Capital notes issued | | - | 175 | - | - | 175 |
| Capital notes buy back | | - | (450) | - | - | (450) |
| **Balance as at 31 December 2017** | | 2,648 | 550 | (308) | 939 | 3,829 |

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

# CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

## For the half-year ended 31 December 2018

| | Note | Dec 2018 $M | Dec 2017 $M |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 1,289 | 1,274 |
| Interest paid | | (689) | (669) |
| Fees and other operating income received | | 90 | 109 |
| Fees and operating expenses paid | | (500) | (409) |
| Reimbursement to related parties for income tax payments | | (54) | (66) |
| *Net decrease (increase) in operating assets* | | | |
| Trading securities | | 89 | 8 |
| Loans and advances | | (449) | (2,442) |
| *Net (decrease) increase in operating liabilities* | | | |
| Net movement in amounts due (from) to related parties | | 16 | (44) |
| Deposits and short-term borrowings | | 479 | 553 |
| **Net cash from (used in) operating activities** | | 271 | (1,686) |
| **Cash flows from investing activities** | | | |
| Proceeds from the sale or maturity of investment securities | | 1,019 | 994 |
| Payments for acquisition of investment securities | | (775) | (1,076) |
| **Net cash from (used in) investing activities** | | 244 | (82) |
| **Cash flows from financing activities** | | | |
| Proceeds from debt issues and securitisation liabilities | 9 | 1,701 | 3,801 |
| Repayment of debt issues and securitisation liabilities | 9 | (1,689) | (2,198) |
| Payments for the buy back and issue of subordinated notes | | (70) | - |
| Payments for the buy back and issue of capital notes | | - | (275) |
| Dividends paid | 3 | (87) | (201) |
| **Net cash (used in) from financing activities** | | (145) | 1,127 |
| **Net increase (decrease) in cash and cash equivalents** | | 370 | (641) |
| Cash and cash equivalents at the beginning of the period | | 832 | 1,420 |
| **Cash and cash equivalents at the end of the period** | | 1,202 | 779 |
| **Cash and cash equivalents at the end of the period comprises:** | | | |
| Cash and cash equivalents | | 1,124 | 363 |
| Receivables due from other banks | | 351 | 470 |
| Payables due to other banks | | (273) | (54) |
| | | 1,202 | 779 |

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

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### For the half-year ended 31 December 2018

## 1. Reporting entity

Suncorp-Metway Limited (the **Company**) is a public company domiciled in Australia. Its registered office is at Level 28, 266 George Street, Brisbane, Qld, 4000.

The consolidated interim financial statements for the half-year ended 31 December 2018 comprise the Company and its subsidiaries (the **Group**) and were authorised for issue by the Board of Directors on 14 February 2019.

The Group's principal activities during the course of the half-year were the provision of banking and related services to the retail, corporate and commercial sectors in Australia. The Group conducts the Banking operations of the Suncorp Group.

The Company's parent entity is SBGH Limited, with Suncorp Group Limited (**SGL**) being the ultimate parent entity. Suncorp Group is defined to be Suncorp Group Limited and its subsidiaries.

The Company is an Authorised Deposit-taking Institution (**ADI**).

## 2. Basis of preparation

The consolidated interim financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The consolidated interim financial report does not include all of the information required for a full consolidated annual financial report, and should be read in conjunction with the consolidated financial report of the Group for the financial year ended 30 June 2018 and any public announcements made by the Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Australian Securities Exchange (**ASX**) Listing Rules. The consolidated financial report of the Group for the financial year ended 30 June 2018 is available upon request from the Company's registered office or at suncorpgroup.com.au/investors/reports.

All accounting policies applied by the Group in this consolidated interim financial report are the same as those applied in its consolidated financial report for the financial year ended 30 June 2018, except for changes from the implementation of the new Australian Accounting Standards as set out in note 2.1.

As the Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191* dated 24 March 2016, all financial information presented has been rounded to the nearest one million dollars unless otherwise stated.

Where necessary, comparatives have been re-presented to conform to changes in presentation in the current half-year. AASB 9 *Financial Instruments* has been applied from 1 July 2018 and the option not to restate prior period financial statements was elected. The change in classification, measurement and impairment resulting from the adoption of AASB 9 was recognised in the 1 July 2018 opening retained earnings and other appropriate equity reserves as disclosed in note 2.1.

## 2.1 Implementation of new Australian Accounting Standards

AASB 9 *Financial Instruments* (**AASB 9**) and AASB 15 *Revenue* (**AASB 15**) have been applied by the Group from 1 July 2018.

### AASB 9 *Financial Instruments*

AASB 9 was issued in December 2014 and replaces AASB 139 Financial Instruments: *Recognition and Measurement* (**AASB 139**). It addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce a forward-looking expected credit loss impairment model, and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

### (a) Classification and measurement

**Financial assets**

The Group determines whether each financial asset's contractual cash flows are solely principal payments and interest (**SPPI**) and how the financial asset is managed.

***Fair value through profit and loss***

Financial assets where contractual cash flows are not SPPI will be classified at fair value through profit and loss (**FVTPL**). Assets that are SPPI, but managed on a fair value basis will also be classified at FVTPL. Where financial assets other than FVTPL back liabilities at fair value through profit or loss, this would create an accounting mismatch and the financial assets can be designated at FVTPL to remove this mismatch.

***Amortised cost***

For assets where cash flows are SPPI and the business model is held-to-collect these cash flows, the classification is at amortised cost.

***Fair value through other comprehensive income***

Debt instruments that are SPPI and are held-to-collect-and-sale (regular, but not frequent sales) will be recorded as fair value through other comprehensive income (**FVOCI**). These will be measured at fair value with subsequent changes going through other comprehensive income (**OCI**). On derecognition, the accumulated OCI will be recycled into profit and loss.

***Modification of contractual cashflows***

In cases where borrowers face financial difficulties, the Company may grant a change to the terms and conditions of their loan repayments for a specific period to avoid the customers defaulting on their loan. These changes can include payment deferrals, change in amortisation periods, and temporary change in interest rates. Loans restructured on commercial terms with a significant modification of their terms and conditions are considered a re-origination. In this case, the asset will be derecognised and a new asset will be recognised. For modifications that do not result in a derecognition, a modification gain or loss will be calculated based on the difference between the present value of the renegotiated or modified contractual cashflows and the gross carrying amount prior to modification. The present value is determined using the loan's original effective interest rate. Significant increase in credit risk (**SICR**) will continue to be assessed relative to the risk of default on the date of original recognition of the loan.

**Financial liabilities**

Financial liabilities are classified at amortised cost except for derivatives and those designated FVTPL. The impact of changes in 'own credit risk' for financial liabilities designated at FVTPL will be separated and recorded in OCI instead of profit or loss.

### (b) Impairment

Expected credit losses (**ECL**) will be recorded for all financial assets measured at amortised cost or FVOCI. ECL is calculated as the probability of default (**PD**) multiplied by loss given default (**LGD**) multiplied by exposure at default. The credit models are calibrated to reflect PD and LGD estimates, based on historical observed experience, as well as reflecting the influence of unbiased forward-looking views of macroeconomic conditions, through macroeconomic variables that influence credit losses, for example unemployment rates and changes in house prices.

The economic forecasts underpinning the PD and LGD estimates are reviewed on at least a 6-monthly basis, taking into account expert judgment, and are approved by the Bank's Asset and Liability Committee. Management has included adjustments to the modelled provisions to capture emerging risks that have not yet been captured in the ECL model.

Financial assets that are subject to credit risk are assigned to one of three stages and could be reassigned based on changes in asset quality:

— Stage 1 are performing and/or newly originated assets. Provisions for loans in stage 1 are established to provide for ECL for a period of 12 months;

— Stage 2 assets have experienced a SICR since origination. Provisions for loans in stage 2 are established to provide for ECL for the remaining term of the asset (**lifetime ECL**); and

— Stage 3 are impaired assets. Provisions for loans in stage 3 are established to provide for the lifetime ECL. Portfolio managed assets in stage 3 (mainly retail lending), will have a collective provision determined by the ECL model, although some loans are individually covered by a specific provision. The majority of relationship managed assets in stage 3 (mainly business lending) will require a specific provision unless it is determined that a collective provision provides a more appropriate estimate. A specific provision is calculated based on estimated future cash flows discounted to their present value.

A SICR event occurs if a loan deteriorates since origination on the master rating scale (**MRS**) by a defined number of notches. Loans with a higher MRS at origination (higher risk) require fewer notch movements to trigger a SICR event than loans with a lower MRS at origination (lower risk). From the perspective of arrears, 30 days past due is always considered stage 2. Exposures for which the MRS subsequently improves to below the SICR threshold will move back to stage 1. Loans restructured on commercial terms with a significant modification of their terms and conditions are considered a re-origination and will be moved into stage 1.

### (c) Transitional impact on implementation of AASB 9

The implementation of AASB 9 resulted in the following financial assets and financial liabilities being reclassified or remeasured:

— Cash and cash equivalents and receivables due from other banks were reclassified from loans and receivables to amortised cost.

— Investment securities: financial assets designated at fair value through profit or loss were reclassified from being designated to 'financial assets at fair value through profit or loss'.

— Offshore commercial papers disclosed within the consolidated interim statement of financial position caption 'deposits and short-term borrowings' continued to be measured at FVTPL under AASB 9, however fair value changes resulting from the issuer's own credit risk will be recognised in other comprehensive income, with all other changes in fair value continuing to be recognised in profit and loss.

— The impairment provision for loans and advances was remeasured due to adoption of the ECL model.

— Investment securities that were measured as available-for-sale and held-to-maturity were reclassified to FVOCI.

No financial assets or liabilities classified as FVTPL under AASB 139 were reclassified to amortised cost or FVOCI under AASB 9. There were no other changes to the classification and measurement of other financial assets or liabilities not listed above and as disclosed in note 31.15 of the consolidated financial report for the financial year ended 30 June 2018.

The following table outlines the quantitative impact from the initial application of AASB 9 for trading and investment securities, gross loans and advances, and the provision for impairment on loans and advances. It includes the effect on reserves and retained profits as a result of remeasurement. Cash and cash equivalents, receivables due from other banks, and offshore commercial papers are excluded from the table as the effect on initial adoption of AASB 9 was insignificant.

The transition to AASB 9 increased the Group's net deferred tax assets by $3 million.

| | Trading and investment securities $M | Gross loans and advances $M | Provision for impairment on loans and advances $M | Reserves $M | Retained profits $M |
|---|---|---|---|---|---|
| **Closing balance as at 30 June 2018 under AASB 139** | 5,697 | 58,728 | 130 | (298) | 969 |
| Closing balance is comprised of: | | | | | |
| FVTPL (mandatory) | 1,639 | - | - | - | - |
| Available-for-sale | 3,544 | - | - | 6 | - |
| Held-to-maturity | 514 | - | - | - | - |
| Amortised cost | - | 58,728 | - | - | - |
| Equity reserve for credit losses | - | - | - | 88 | - |
| Other reserves | - | - | - | (392) | - |
| **Reclassification on 1 July 2018** | | | | | |
| From available-for-sale (AASB 139)[1] | (3,544) | - | - | (6) | - |
| From held-to-maturity (AASB 139)[2] | (514) | - | - | - | - |
| To FVOCI - debt instrument (AASB 9)[1&2] | 4,058 | - | - | 6 | - |
| **Remeasurement on 1 July 2018** | | | | | |
| From held-to-maturity at amortised cost (AASB 139) to FVOCI - debt instrument[2] | 10 | - | - | 7 | - |
| Increase in expected credit losses[3] | - | - | 20 | 9 | (23) |
| **Opening balance as at 1 July 2018 under AASB 9** | 5,707 | 58,728 | 150 | (282) | 946 |
| Opening balance is comprised of: | | | | | |
| FVTPL (mandatory) | 1,639 | - | - | - | - |
| FVOCI - debt instrument | 4,068 | - | - | 13 | - |
| Amortised cost | - | 58,728 | - | - | - |
| Equity reserve for credit losses | - | - | - | 97 | - |
| Other reserves | - | - | - | (392) | - |

1 The majority of investment securities that were classified as available-for-sale under AASB 139 are debt instruments consisting of bonds issued by Government and Semi-Government authorities, residential mortgage backed securities (**RMBS**) as well as investment graded banking bonds that meet the regulatory requirements of High Quality Liquid Assets (**HQLA**). The Group holds these assets to manage its ongoing liquidity needs and comply with APRA regulations. Therefore, they meet the business model of both collecting contractual cash flows and selling financial assets and are classified as FVOCI under AASB 9. The existing available-for-sale reserve has been reclassified to a FVOCI reserve.

2 Investment securities classified as held-to-maturity under AASB 139 contain mainly bonds and RMBS that meet the definition of HQLA and are held for regulatory purposes. While sales of these assets were restricted under AASB 139, the Group intends to manage these assets as part of its liquidity reserve and will be both collecting contractual cash flows and selling financial assets and therefore will classify these assets as FVOCI under AASB 9.

3 The Group implemented an ECL model which led to an increase in the collective provision for loans and advances. The impact on financial asset categories other than loans and advances is considered immaterial.

### (d) Hedge accounting

The International Accounting Standards Board is currently working on a project on dynamic risk management, which will heavily impact hedge accounting for macro hedges. AASB 9 currently provides an option to continue to apply AASB 139 hedge accounting rules until this project is finalised. Suncorp Group has elected to continue to apply AASB 139 for hedge accounting until there is clarity around the additional changes.

**AASB 15 *Revenue from Contracts with Customers***

AASB 15 was issued in December 2014 and provides a single comprehensive model for revenue recognition based on the satisfaction of performance obligations and additional disclosures about revenue. It replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts*, and related interpretations. The overall effect of the implementation of AASB 15 was not material to the Group.

## 2.2 Use of estimates and judgments

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

The significant judgments made by management in applying the Group accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial report as at and for the financial year ended 30 June 2018 except for new significant judgments and key sources of estimation uncertainty related to the application of AASB 9 as outlined in note 2.1 and the matters outlined in note 14 Contingent assets and liabilities.

The changes in estimates and the movements over the half-year ended 31 December 2018 for the provision for impairment and carrying amounts of different stages of assets are set out in note 7.

# 3. Dividends

| | Dec 2018 | | Dec 2017 | |
|---|---|---|---|---|
| | **Cents per share** | **$M** | **Cents per share** | **$M** |
| **Dividend payments on ordinary shares** | | | | |
| 2018 final dividend (December 2017: 2017 final dividend) | 28 | 76 | 67 | 181 |
| **Dividend payments on capital notes** | | | | |
| *Issued on 5 May 2017* | | | | |
| September quarter | 108 | 4 | 152 | 6 |
| December quarter | 105 | 3 | 102 | 4 |
| *Issued on 18 December 2017* | | | | |
| September quarter | 100 | 2 | - | - |
| December quarter | 97 | 2 | - | - |
| *Issued on 17 December 2012* | | | | |
| September quarter | - | - | 111 | 5 |
| December quarter | - | - | 111 | 5 |
| **Total dividends on capital notes** | | 11 | | 20 |
| **Total dividends** | | 87 | | 201 |
| **Dividends not recognised in the consolidated interim statement of financial position** | | | | |
| *Dividends determined since balance date* | | | | |
| 2019 interim dividend (December 2017: 2018 interim dividend) | 46 | 126 | 43 | 117 |
| | | 126 | | 117 |

# 4. Segment reporting

The basis of segmentation and basis of measurement of segment results are the same as those applied by the Group in its consolidated financial report for the financial year ended 30 June 2018.

As the Group operates in only one segment, the consolidated results of the Group are also its segment results for the current and prior periods. All revenue of the Group is from external customers.

# 5. Net operating income

## 5.1. Net interest income

| | Dec 2018 $M | Dec 2017 $M |
|---|---|---|
| **Interest income** | | |
| Cash and cash equivalents | 3 | 3 |
| Receivables due from other banks | 1 | 2 |
| Trading securities | 15 | 13 |
| Investment securities[1] | 65 | 78 |
| Loans and advances | 1,208 | 1,174 |
| **Total interest income** | 1,292 | 1,270 |
| | | |
| **Interest expense** | | |
| Deposits and short-term borrowings: | | |
| at amortised cost | (420) | (417) |
| designated at fair value through profit and loss | (27) | (19) |
| Derivatives | (16) | (26) |
| Securitisation liabilities | (73) | (54) |
| Debt issues | (155) | (140) |
| Subordinated notes | (16) | (16) |
| **Total interest expense** | (707) | (672) |
| **Net interest income** | 585 | 598 |

1 Investment securities were classified as available-for-sale and held-to-maturity for the financial year ended 30 June 2018 and the entire balance transitioned into fair value through other comprehensive income in the period ended 31 December 2018.

## 5.2. Other operating income

| | Dec 2018 $M | Dec 2017 $M |
|---|---|---|
| Banking fee and commission income | 90 | 92 |
| Banking fee and commission expense | (73) | (69) |
| Net banking fee and commission income | 17 | 23 |
| Net gains (losses) on: | | |
| Trading securities at fair value through profit and loss | 2 | - |
| Financial assets and liabilities at fair value through the profit and loss | 2 | 3 |
| Derivative and other financial instruments | - | 3 |
| Other revenue | 2 | 5 |
| | 6 | 11 |
| **Total other operating income** | 23 | 34 |

## 6. Loans and advances

| | Note | Dec 2018 $M | Jun 2018 $M |
|---|---|---|---|
| *Financial assets at amortised cost* | | | |
| Housing loans | | 47,982 | 47,604 |
| Consumer loans | | 162 | 175 |
| Business loans | | 11,026 | 10,937 |
| Other lending | | 6 | 12 |
| Gross loans and advances | | 59,176 | 58,728 |
| Provision for impairment | 7.1 | (145) | (130) |
| **Net loans and advances** | | 59,031 | 58,598 |
| Current | | 10,897 | 10,831 |
| Non-current | | 48,134 | 47,767 |
| **Net loans and advances** | | 59,031 | 58,598 |

## 7. Provision for impairment on financial assets

### 7.1 Reconciliation of provision for impairment on financial assets

The table below shows the reconciliation of the new ECL for the period ended 31 December 2018.

| | Collective provision | | | | |
|---|---|---|---|---|---|
| | **Stage 1 - 12-month ECL $M** | **Stage 2 - Lifetime ECL $M** | **Stage 3 - Lifetime ECL $M** | **Stage 3 - Specific provision $M** | **Total $M** |
| **Total provision for impairment on loans and advances as at 1 July 2018**[1] | 37 | 37 | 29 | 39 | 142 |
| Transfers: | | | | | |
| Transfer to stage 1 | 7 | (6) | (1) | - | - |
| Transfer to stage 2 | (1) | 6 | (5) | - | - |
| Transfer to stage 3 | - | (4) | 1 | 3 | - |
| New and increased provisions | 13 | 16 | 15 | 8 | 52 |
| Write-back of provisions no longer required | (21) | (14) | (6) | (8) | (49) |
| Specific provisions written-off | - | - | - | (6) | (6) |
| Unwind of discount | - | - | - | (2) | (2) |
| **Total provision for impairment on loans and advances as at 31 December 2018** | 35 | 35 | 33 | 34 | 137 |
| **Total provision for impairment on commitments and guarantees as at 1 July 2018**[1] | 7 | 1 | - | - | 8 |
| New and increased provisions | 3 | 1 | - | - | 4 |
| Write-back of provisions no longer required | (4) | - | - | - | (4) |
| **Total provision for impairment on commitments and guarantees as at 31 December 2018** | 6 | 2 | - | - | 8 |
| **Total provision for impairment as at 31 December 2018** | 41 | 37 | 33 | 34 | 145 |

1 The opening balance at 1 July 2018 presented in the table above is inclusive of the $20 million transitional adjustment detailed in note 2.1.

As stated in note 2, the 31 December 2017 and 30 June 2018 prior period comparatives have not been restated and are shown below. Note 2.1 provides a reconciliation of the impact on the transition to AASB 9.

| | Half-year to Jun 2018 $M | Dec 2017 $M |
|---|---|---|
| **Collective provision** | | |
| Balance at the beginning of the period | 94 | 96 |
| Write-back against impairment losses | (3) | (2) |
| **Balance at the end of the period** | 91 | 94 |
| **Specific provision** | | |
| Balance at the beginning of the period | 37 | 44 |
| New and increased individual provisioning | 18 | 19 |
| Write-back of provisions no longer required | (8) | (7) |
| Impaired provision written off | (6) | (17) |
| Unwind of discount | (2) | (2) |
| **Balance at the end of the period** | 39 | 37 |
| **Total provision for impairment** | 130 | 131 |

The following table shows the effect of movements in the gross carrying amount of loans and advances in different stages during the half-year ended 31 December 2018.

| | Stage 1 - 12-month ECL $M | Stage 2 - Lifetime ECL $M | Stage 3 - Lifetime collective ECL $M | Stage 3 - Specific provision $M | Total $M |
|---|---|---|---|---|---|
| **Gross carrying amount as at 1 July 2018** | 56,130 | 1,907 | 580 | 111 | 58,728 |
| Transfers: | | | | | |
| Transfer to stage 1 | 591 | (568) | (22) | (1) | - |
| Transfer to stage 2 | (945) | 1,075 | (130) | - | - |
| Transfer to stage 3 | (95) | (198) | 258 | 35 | - |
| New loans and advances originated or purchased | 4,904 | - | - | - | 4,904 |
| Loans and advances derecognised during the period including write-offs | (4,128) | (223) | (77) | (28) | (4,456) |
| **Gross carrying amount as at 31 December 2018** | 56,457 | 1,993 | 609 | 117 | 59,176 |
| Provision for impairment | (41) | (37) | (33) | (34) | (145) |
| **Net carrying amount as at 31 December 2018** | 56,416 | 1,956 | 576 | 83 | 59,031 |

## 7.2 Impairment loss on financial assets

| | Half-year to Dec 2018 $M | Jun 2018 $M | Dec 2017 $M |
|---|---|---|---|
| Increase (decrease) in collective provision for impairment | - | (3) | (2) |
| Increase in specific provision for impairment | 3 | 10 | 12 |
| Bad debts written off | 4 | 9 | 4 |
| Bad debts recovered | - | (2) | (1) |
| **Total impairment loss on loans and advances** | 7 | 14 | 13 |

## 8. Deposits and short-term borrowings

| | Dec 2018 $M | Jun 2018 $M |
|---|---|---|
| *Financial liabilities at amortised cost* | | |
| Call deposits | 21,330 | 20,289 |
| Term deposits | 18,027 | 18,272 |
| Short-term securities issued | 5,165 | 5,442 |
| Total financial liabilities at amortised cost | 44,522 | 44,003 |
| *Financial liabilities designated at fair value through profit or loss* | | |
| Offshore commercial papers | 2,111 | 2,040 |
| **Total deposits and short-term borrowings** | 46,633 | 46,043 |
| Current | 46,455 | 45,801 |
| Non-current | 178 | 242 |
| **Total deposits and short-term borrowings** | 46,633 | 46,043 |

Deposits and short-term borrowings obtained under repurchase agreements with the Reserve Bank of Australia and outstanding at 31 December 2018 are $301 million (30 June 2018: $301 million).

## 9. Issues and repayments of debt securities

| | Liabilities arising from operating activities | Liabilities arising from financing activities | | |
|---|---|---|---|---|
| | Offshore commercial papers[1] $M | Securitisation liabilities $M | Debt issues $M | Subordinated notes $M |
| **Balance as at 1 July 2018** | 2,040 | 4,848 | 9,854 | 742 |
| Cash flows | | | | |
| Proceeds | 1,555 | - | 1,701 | 600 |
| Repayments | (1,594) | (571) | (1,118) | (670) |
| Transaction costs | - | - | - | - |
| Non-cash changes | 110 | 1 | 165 | - |
| **Balance as at 31 December 2018** | 2,111 | 4,278 | 10,602 | 672 |
| **Balance as at 1 July 2017** | 2,469 | 3,088 | 9,216 | 742 |
| Cash flows | | | | |
| Proceeds | 2,196 | 1,500 | 2,301 | - |
| Repayments | (2,446) | (475) | (1,723) | - |
| Transaction costs | - | (2) | - | - |
| Non-cash changes | 44 | - | (72) | - |
| **Balance as at 31 December 2017** | 2,263 | 4,111 | 9,722 | 742 |

1 Disclosed within the consolidated interim statement of financial position category of 'Deposits and short-term borrowings'.

On 22 November 2018, the Company redeemed $670 million of Tier 2 subordinated notes. On the same day, the Company issued $600 million of subordinated notes for $10,000 per note. They are fully paid, unsecured, cumulative subordinated notes, with a maturity date of 5 December 2028, with the option to redeem the notes on the early redemption date of 5 December 2023, subject to APRA approval. If APRA determines that a non-viability event has occurred in relation to the Company, some or all of the subordinated notes will be immediately converted into a variable number of the Company's ordinary shares.

## 10. Share capital

There has been no issue or buy-back of issued capital during the current or prior half-year. As at 31 December 2018, the number of ordinary shares on issue was 271,467,584.

## 11. Capital notes

| | Dec 2018 | | Jun 2018 | |
|---|---|---|---|---|
| | **No of notes** | **$M** | **No of notes** | **$M** |
| Issued on 5 May 2017 | 3,750,000 | 375 | 3,750,000 | 375 |
| Issued on 18 December 2017 | 1,750,000 | 175 | 1,750,000 | 175 |
| **Balance at the end of the financial period** | 5,500,000 | 550 | 5,500,000 | 550 |

The capital notes are perpetual, subordinated notes issued to the Group's ultimate parent entity, Suncorp Group Limited. The capital notes are unsecured and pay periodic, non-cumulative dividends to the holder, based on a set formula (bank bill swap rate + margin) x (1 - corporate tax rate). Such dividends are at the discretion of the directors.

## 12. Fair value of financial instruments

Fair values are categorised by a three-level hierarchy which identifies the inputs to valuation techniques used to measure fair value:

– Level 1: derived from quoted prices (unadjusted) in active markets for identical financial instruments that the Group can access at the measurement date.

– Level 2: derived from other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly.

– Level 3: fair value measurement is not based on observable market data.

### Financial assets and liabilities measured at fair value

The following table presents the financial assets and liabilities that are measured at fair value categorised by fair value hierarchy.

| | | Dec 2018 | | | | Jun 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Note** | **Level 1 $M** | **Level 2 $M** | **Level 3 $M** | **Total $M** | **Level 1 $M** | **Level 2 $M** | **Level 3 $M** | **Total $M** |
| **Financial assets** | | | | | | | | | |
| Trading securities | | - | 1,540 | - | 1,540 | - | 1,639 | - | 1,639 |
| Investment securities[1] | | - | 3,972 | - | 3,972 | - | 3,544 | - | 3,544 |
| Derivatives | | 2 | 379 | - | 381 | 2 | 222 | - | 224 |
| | | 2 | 5,891 | - | 5,893 | 2 | 5,405 | - | 5,407 |
| **Financial liabilities** | | | | | | | | | |
| Offshore commercial papers[2] | 8 | - | 2,111 | - | 2,111 | - | 2,040 | - | 2,040 |
| Derivatives | | - | 173 | - | 173 | - | 158 | - | 158 |
| | | - | 2,284 | - | 2,284 | - | 2,198 | - | 2,198 |

1 The 30 June 2018 comparatives relate to investment securities that were classified as available-for-sale under AASB 139.

2 Designated as financial liabilities at fair value through profit or loss. Disclosed within the consolidated interim statement of financial position category of 'Deposits and short-term borrowings'.

There have been no significant transfers between Level 1 and Level 2 and no transfers into or out of Level 3 during the current or prior half year. Transfers are deemed to have occurred at the end of the reporting period.

### Financial assets and liabilities not measured at fair value

The table below discloses a comparison of carrying value and fair value of financial assets and liabilities that are not measured at fair value after initial recognition, where their carrying value is not a reasonable approximation of fair value. The significant assumptions and estimates used in determining their fair values are consistent with those used in the financial year ended 30 June 2018.

| | | Carrying value | Fair value | | | |
|---|---|---|---|---|---|---|
| | | | Level 1 | Level 2 | Level 3 | Total |
| | Note | $M | $M | $M | $M | $M |
| **As at 31 December 2018** | | | | | | |
| **Financial assets** | | | | | | |
| Loans and advances | 6 | 59,031 | - | - | 59,079 | 59,079 |
| | | 59,031 | - | - | 59,079 | 59,079 |
| **Financial liabilities** | | | | | | |
| Deposits and short-term borrowings at amortised cost | 8 | 44,522 | - | 44,541 | - | 44,541 |
| Securitisation liabilities | 9 | 4,278 | - | 4,287 | - | 4,287 |
| Debt issues | 9 | 10,602 | - | 10,655 | - | 10,655 |
| Subordinated notes | 9 | 672 | - | 657 | - | 657 |
| | | 60,074 | - | 60,140 | - | 60,140 |
| **As at 30 June 2018** | | | | | | |
| **Financial assets** | | | | | | |
| Held-to-maturity investment securities[1] | | 514 | - | 524 | - | 524 |
| Loans and advances | 6 | 58,598 | - | - | 58,609 | 58,609 |
| | | 59,112 | - | 524 | 58,609 | 59,133 |
| **Financial liabilities** | | | | | | |
| Deposits and short-term borrowings at amortised cost | 8 | 44,003 | - | 44,005 | - | 44,005 |
| Securitisation liabilities | 9 | 4,848 | - | 4,877 | - | 4,877 |
| Debt issues | 9 | 9,854 | - | 9,919 | - | 9,919 |
| Subordinated notes | 9 | 742 | - | 733 | - | 733 |
| | | 59,447 | - | 59,534 | - | 59,534 |

1 Under AASB 9 and from 1 July 2018, held-to-maturity investment securities previously measured at amortised cost are measured at fair value through other comprehensive income.

## 13. Related parties

Arrangements for related parties continue to be in place as disclosed in the Group's consolidated financial report for the financial year ended 30 June 2018.

## 14. Contingent assets and liabilities

There have been no material changes in contingent assets or contingent liabilities since 30 June 2018 other than the matter noted in note 15 Subsequent events.

## 15. Subsequent events

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established on 14 December 2017. The focus of the Royal Commission's hearings has been the actions of financial service entities, inquiring into whether any conduct of financial services entities might have amounted to misconduct and whether any conduct, practices, behaviour or business activities of financial services entities fall below community standards and expectations.

On 1 February 2019 the Commissioner's Final Report (**Final Report**) was presented to the Governor-General. The Final Report sets out 76 policy recommendations to strengthen protections for consumers, small business and rural and regional communities, enhance accountability, ensure strong and effective financial system regulators and further improve consumer and small business access to redress. The Group is currently working through the matters raised in the Final Report, including the specific findings referenced to the Group. The impact of these to Suncorp will take time to be properly understood.

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

# DIRECTORS' DECLARATION

The directors of Suncorp-Metway Limited (the **Company**) declare that in their opinion:

1. The consolidated interim financial statements and notes set out on pages 5 to 20, are in accordance with the *Corporations Act 2001*, including:
    a. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
    b. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

| | |
|---|---|
| **CHRISTINE MCLOUGHLIN** | **MICHAEL CAMERON** |
| Chairman | CEO and Managing Director |
| 14 February 2019 | |

KPMG

# Independent Auditor's Review Report

## To the shareholder of Suncorp-Metway Limited

### Conclusion

We have reviewed the accompanying ***Consolidated interim financial report*** of Suncorp-Metway Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Consolidated interim financial report of Suncorp-Metway Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Consolidated interim financial report*** comprises:

- Consolidated interim statement of financial position as at 31 December 2018;
- Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date;
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information; and
- Directors' declaration.

The ***Group*** comprises Suncorp-Metway Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

### Responsibilities of the Directors for the Consolidated interim financial report

The Directors of the Company are responsible for:

- the preparation of the Consolidated interim financial report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- for such internal control as the Directors determine is necessary to enable the preparation of the Consolidated interim financial report that is free from material misstatement, whether due to fraud or error.

KPMG

## Auditor's responsibility for the review of the Consolidated interim financial report

Our responsibility is to express a conclusion on the Consolidated interim financial report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Consolidated interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Suncorp-Metway Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Consolidated interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

KPMG

KPMG

Jillian Richards

Jillian Richards
Partner

Brisbane
14 February 2019