

Suncorp-Metway Limited and subsidiaries

ABN 66 010 831 722



Consolidated interim financial report

for the half-year ended 31 December 2013

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Directors' report

The directors present their report together with the consolidated interim financial report of Suncorp-Metway Limited (the **Company**) and its subsidiaries for the half-year ended 31 December 2013 and the review report thereon.

Directors

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

Non-executive

Dr Zygmunt E Switkowski (Chairman)	Director since 2005
Ilana R Atlas	Director since 2011
William J Bartlett	Director since 2003
Michael A Cameron	Director since 2012
Audette E Exel	Director since 2012
Ewoud J Kulk	Director since 2007
Dr Douglas F McTaggart	Director since 2012
Geoffrey T Ricketts	Director since 2007

Executive

Patrick J R Snowball (Managing Director & Group CEO)	Director since 2009
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Review of operations

Overview of the Group

Suncorp-Metway Limited and its subsidiaries (the **Group**) represents the banking business of the Suncorp Group (Suncorp Group Limited and its subsidiaries).

The Group recorded a net profit after tax attributable to owners of the Company of \$105 million for the half-year ended 31 December 2013, compared to \$4 million for the corresponding prior period.

Financial position and capital structure

The Group has net assets of \$3,303 million (June 2013: \$3,141 million). The increase in net assets of \$162 million comprises the total comprehensive income for the half-year of \$134 million, an increase in share capital of \$40 million, less \$12 million paid in dividends to capital note holders.

During the period, the Group's capital adequacy ratio increased to 12.97% (Jun 2013: 12.52%), and the common equity tier 1 ratio to 8.16% (Jun 2013: 7.59%), after raising \$40 million in share capital, via the issue of four million ordinary shares, and the redemption of \$30 million in reset preference shares. The Group remains well capitalised and in excess of the minimum regulatory requirement.

Review of principal businesses

The profit after tax of the Group was \$105 million for the half-year ended 31 December 2013 (December 2012: \$4 million).

The 2014 financial year represents a period of transition for the Group as it consolidates operations and unwinds legacy funding and cost positions relating to the former "non-core" corporate and property portfolio. The Group delivered net profit after tax of \$105 million for the half-year, a result significantly favourable against the prior corresponding period.

Net interest income increased 2% against the prior corresponding period. The result is pleasing given the significant de-risking of the balance sheet through the run-off of high margin corporate and property assets. The residual corporate and property portfolio is \$298 million at 31 December 2013, a reduction of \$437 million, 60% from 30 June 2013.

Net interest margin (NIM) of 1.66% is broadly inline with the prior half. The result was shaped by margin compression on low cost deposits and invested capital. Retail product spreads improved over the half however and the Group is well positioned if and/or when interest rates start to rise. The Group will further benefit from the unwinding of legacy funding positions over the remainder of the 2014 calendar year and is on track to operate within the target NIM range in the first half of 2015 financial year.

Lending growth, excluding the residual corporate and property portfolio, of 6.8% year on year is within target growth and acceptable risk parameters. Lending growth continues to be supported by a conservative funding strategy with 66% of lending assets funded by retail deposits.

Directors' report (continued)

Review of operations (continued)

Review of principal businesses (continued)

Operating expenses of \$305 million are broadly in line half on half, but have reduced by \$11 million compared to the six months ended 30 June 2013. The cost to income ratio is on track despite the challenge of absorbing 'stranded' components attributable to the former "non-core" corporate and property portfolio.

Bad debt expense was \$45 million over the half-year, an improvement of \$149 million against the prior corresponding period. The result benefitted from the run-off of the corporate and property portfolio. Credit impairment losses were 35 basis points (bps) of credit risk-weighted assets and 18 bps of gross loans and advances. Prolonged adverse weather conditions continue to pressure credit performance. Affected exposures remain under close watch.

Impact of legislation and other external requirements

There continues to be significant legislative and regulatory reform and inquiries which impact or could impact the Group's operations.

The Federal Government has announced a "root and branch" inquiry into Australia's financial system. The inquiry's terms of reference are intended to enable the inquiry to determine how Australia's financial system can be best positioned to meet Australia's evolving needs and support Australia's economic growth. The inquiry is scheduled to deliver its final report with recommendations to the Federal Government by November 2014.

The Federal Government has also announced a review of Australia's competition laws and policy by a review panel. The review panel will examine Australia's current competition laws (e.g. the *Australian Competition and Consumer Act 2010*) and the broader competition framework with the intention of increasing productivity in the markets, driving benefits to ease cost of living pressures and raising living standards for all Australians. The review panel is scheduled to report to the Federal Government in the next 12 months.

The Australian Prudential Regulation Authority (**APRA**) is in the process of finalising its proposals and draft prudential standards for the supervision of conglomerate groups (Level 3 framework), which includes the Suncorp Group. APRA intends that the Level 3 framework will take effect on 1 January 2015.

Reforms to Australia's privacy and credit reporting laws are scheduled to commence in March 2014.

The prudential framework applicable to Australian banks in relation to the implementation of the Basel III capital reforms commenced progressively from 1 January 2013. The Basel III reforms incorporate higher capital requirements and include additional capital buffers. APRA has indicated it proposes to implement the Basel III liquidity reforms in respect of: (a) the liquidity coverage ratio to address an acute stress scenario from 1 January 2015 and (b) the net stable funding ratio to encourage longer term funding resilience from 1 January 2018.

The Basel Committee on Banking Supervision and APRA continue to consult on, refine and finalise various aspects of the Basel III reforms.

The Payment Systems Board of the Reserve Bank of Australia is working with industry on a set of strategic objectives which includes a fast real time payment system that would allow businesses and consumers to make payments with close to immediate funds availability to the recipient on a 24 /7 basis and give customers the ability to make payments in a simple manner by addressing a payment to a mobile phone number or email address rather than having to use a six digit BSB and up to nine digit account number. The intention is to have most of the objectives implemented by the end of 2016.

All of these legislative and regulatory reforms and other proposals and inquiries in Australia will or could impact the Group's banking operations.

Events subsequent to reporting date

There has not arisen in the interval between 31 December 2013 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

Directors' report (continued)

Dividends

There were no dividends on ordinary shares paid or declared during the current period or the prior corresponding period.

The Group paid the following dividends on capital notes to Suncorp Group Limited during the period:

- \$6 million on 17 September 2013
- \$6 million on 17 December 2013.

Further details of dividends provided for or paid are set out in note 5 and note 18.1 to the consolidated interim financial statements.

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 2013.

Rounding of amounts

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

Signed in accordance with a resolution of the directors.

Dr Zygmunt E Switkowski
Chairman

Patrick J R Snowball
Managing Director and Group CEO

19 February 2014



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 for the half-year ended 31 December 2013 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

Paul Reid
Partner

Brisbane
19 February 2014

Consolidated interim statement of comprehensive income
for the half-year ended 31 December 2013

CONSOLIDATED	Note	Dec 2013	Dec 2012
		\$m	\$m
Interest income	7	1,515	1,787
Interest expense	7	(1,023)	(1,303)
Net interest income		492	484
Other operating income	7	20	47
Total net operating income		512	531
Operating expenses		(305)	(303)
Losses on loans and advances	11.2, 11.3	(58)	(215)
Profit before income tax		149	13
Income tax expense	8	(44)	(9)
Profit for the period		105	4
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of cash flow hedges	19	32	37
Net change in fair value of available-for-sale financial assets	19	12	(5)
Income tax	19	(15)	(15)
Other comprehensive income		29	17
Total comprehensive income for the period		134	21
Profit for the period attributable to owners of the Company		105	4
Total comprehensive income for the period attributable to owners of the Company		134	21

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 2013

CONSOLIDATED	Note	Dec 2013	Jun 2013	Dec 2012
		\$m	\$m	\$m
Assets				
Cash and cash equivalents		810	905	341
Receivables due from other banks		790	1,460	1,031
Trading securities		2,129	3,462	4,077
Derivatives		451	667	427
Investment securities	9	6,652	6,640	5,114
Loans, advances and other receivables	10	49,435	48,365	49,036
Other assets		213	273	319
Deferred tax assets		88	141	185
Goodwill and intangible assets		26	26	27
Total assets		60,594	61,939	60,557
Liabilities				
Payables due to other banks		186	213	46
Deposits and short-term borrowings		44,597	43,861	41,828
Derivatives		494	984	1,287
Payables and other liabilities		474	755	578
Securitisation liabilities	13	4,267	4,802	4,326
Debt issues	14	6,433	7,313	8,250
Total liabilities excluding loan capital		56,451	57,928	56,315
Loan capital				
Subordinated notes	15	840	840	267
Preference shares	16	-	30	764
Total loan capital		840	870	1,031
Total liabilities		57,291	58,798	57,346
Net assets		3,303	3,141	3,211
Equity				
Share capital	17	2,492	2,452	2,189
Capital notes	18	450	450	450
Reserves	19	(283)	(306)	(336)
Retained profits		644	545	908
Total equity		3,303	3,141	3,211

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 2013

CONSOLIDATED		Note	Share capital \$m	Capital notes \$m	Reserves \$m	Retained profits \$m	Total equity \$m
Balance as at 1 July 2013			2,452	450	(306)	545	3,141
Profit after tax for the period			-	-	-	105	105
Total other comprehensive income			-	-	29	-	29
Total comprehensive income			-	-	29	105	134
Transactions with owners, recorded directly in equity							
Issuances	17		40	-	-	-	40
Dividends paid	18.1		-	-	-	(12)	(12)
Transfers			-	-	(6)	6	-
Balance as at 31 December 2013			2,492	450	(283)	644	3,303
Balance as at 1 July 2012			2,189	-	(339)	890	2,740
Profit after tax for the period			-	-	-	4	4
Total other comprehensive income			-	-	17	-	17
Total comprehensive income			-	-	17	4	21
Transactions with owners, recorded directly in equity							
Notes issued to ultimate parent entity	18		-	450	-	-	450
Transfers			-	-	(14)	14	-
Balance as at 31 December 2012			2,189	450	(336)	908	3,211

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 2013

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Cash flows from operating activities		
Interest received	1,509	1,783
Interest paid	(1,137)	(1,392)
Other operating income received	100	78
Operating expenses and fees and commissions paid	(387)	(368)
Income tax paid	(6)	(30)
<i>Net increase (decrease) in operating assets</i>		
Trading securities	1,325	736
Loans, advances and other receivables and other assets	(1,052)	(1,626)
<i>Net increase in operating liabilities</i>		
Deposits and short-term borrowings and other liabilities	584	291
Net cash from operating activities	936	(528)
Cash flows from investing activities		
Net (payments) proceeds from investment securities	(5)	1,161
Net cash from (used in) investing activities	(5)	1,161
Cash flows from financing activities		
Net decrease in borrowings	(1,667)	(1,879)
Payment on maturity of subordinated notes	-	(407)
Proceeds from issue of ordinary shares	40	-
Proceeds from capital notes issued	-	450
Payments for preference share redemption	(30)	-
Dividends paid on capital notes	(12)	-
Net cash from (used in) financing activities	(1,669)	(1,836)
Net decrease in cash and cash equivalents	(738)	(1,203)
Cash and cash equivalents at the beginning of the period	2,152	2,529
Cash and cash equivalents at the end of the period	1,414	1,326
Cash and cash equivalents at the end of the period comprises:		
Cash and cash equivalents	810	341
Receivables due from other banks ¹	790	1,031
Payables due to other banks ²	(186)	(46)
	1,414	1,326

Notes

1. Includes cash pledged as collateral to support derivative liability positions \$288 million (December 2012: \$907 million) in accordance with standard International Swaps and Derivatives Association (ISDA) agreements.
2. Includes cash received as collateral to support derivative asset positions of \$131 million (December 2012: \$60 million) in accordance with standard International Swaps and Derivatives Association (ISDA) agreements.

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

Notes to the consolidated interim financial statements

1. Reporting entity

Suncorp-Metway Limited (the **Company**) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the half-year ended 31 December 2013 comprises the Company and its subsidiaries (the **Group**).

The Group is a for-profit entity and its consolidated annual financial report for the financial year ended 30 June 2013 is available upon request from the Company's registered office at Level 18, 36 Wickham Terrace, Brisbane, QLD 4000 or at www.suncorpgroup.com.au.

2. Basis of preparation

The consolidated interim financial report is a general purpose financial report which 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 2013 and any public announcements made in the period 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 interim financial report was approved by the Board of Directors on 19 February 2014.

The consolidated interim financial statements have been prepared on the historical cost basis unless the application of fair value or other measurements are required by relevant accounting standards.

These consolidated interim financial statements are presented in Australian dollars which is the functional currency of the Company and its subsidiaries.

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

3. Significant accounting policies

Except as described below, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated annual financial report for the year ended 30 June 2013.

3.1 Changes in accounting policies

Since 1 July 2013, the Group has adopted the amendments to AASB 134 *Interim Financial Reporting*. This standard is amended to introduce a selection of new fair value disclosures for financial instruments required by AASB 13 *Fair Value Measurement* and AASB 7 *Financial Instruments: Disclosures*. These new disclosures have been included in this consolidated interim financial report. As permitted by the transitional provisions of AASB 13, the Group has not provided any comparative information on the disclosures required by this standard.

The following new and amended accounting standards have also been adopted by the Group from 1 July 2013. Adoption of these standards had an immaterial effect to the Group and the disclosures contained in this consolidated interim financial report.

- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 12 *Disclosure of Interests in Other Entities*
- AASB 13 *Fair Value Measurement*

Notes to the consolidated interim financial statements (continued)

3.2 Comparatives

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

In the consolidated financial report for the financial year ended 30 June 2013, the reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions was changed to better reflect the nature of the assets and liabilities and to be consistent with industry practice. The table below illustrates the material changes to previously reported classifications on the consolidated interim statement of financial position as at 31 December 2012.

CONSOLIDATED	Dec 2012		
	Previously reported \$m	Change \$m	Currently reported \$m
Assets			
Receivables due from other banks	124	907	1,031
Loans, advances and other receivables	49,943	(907)	49,036
Liabilities			
Payables due to other banks	32	14	46
Deposits and short-term borrowings	41,842	(14)	41,828

The consolidated interim statement of cash flows for the half-year ended 31 December 2012 has also been restated with the net change in Loans, advances and other receivables increasing by \$983 million, and the net change in deposits and short-term borrowings increasing by \$9 million. This reclassification resulted in no change to the consolidated interim statement of comprehensive income for the comparative half-year.

4. Use of estimates and judgements

The preparation of the consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements. The estimates and associated accounting 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.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated annual financial report as at and for the year ended 30 June 2013.

5. Dividends

No dividends on ordinary shares were paid or declared during the half-year ended 31 December 2013, or in the prior corresponding period.

Dividends paid on capital notes during the half-year ended 31 December 2013 are outlined in note 18.1.

Notes to the consolidated interim financial statements (continued)

6. Segment reporting

Operating segments are identified based on separate financial information which is regularly reviewed by the Suncorp Group Chief Executive Officer and his immediate executive team, representing the Group's Chief Operating Decision Maker (CODM), in assessing performance and determining the allocation of resources.

Segment	Business activities
Banking	Provision of personal and commercial banking, agribusiness, property and equipment finance, home, personal and small business loans, savings and transaction accounts and foreign exchange and treasury products and services in Australia.

Segment results presented below are measured on a consistent basis to how they are reported to the CODM, which are consistent with the Group's accounting policy (refer note 3).

The basis of segmentation and basis of measurement of segment results are the same as those applied by the Group in its consolidated annual financial report for the year ended 30 June 2013. Comparative segment information has been presented on this basis.

6.1 Segment results

	Banking
	\$m
Half-year ended 31 December 2013	
Revenue from external customers	1,596
Total segment revenue	1,596
Segment profit (loss) before income tax	149
Segment income tax expense	(44)
Segment profit (loss) after income tax	105
Half-year ended 31 December 2012	
Revenue from external customers	1,886
Total segment revenue	1,886
Segment profit (loss) before income tax	13
Segment income tax expense	(9)
Segment profit (loss) after income tax	4

All assets and liabilities of the Group relate to the Banking segment as at the end of the current and prior periods.

6.2 Reconciliation of segment profit after tax

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Segment profit after income tax	105	4
Consolidated profit after income tax	105	4

Notes to the consolidated interim financial statements (continued)

7. Income

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Interest income		
Cash and cash equivalents	6	6
Receivables due from other banks	6	21
Trading securities	39	77
Investment securities	128	132
Loans and advances	1,336	1,551
	1,515	1,787
Interest expense		
Deposits and short-term borrowings	(719)	(871)
Derivatives	(57)	(101)
Securitisation liabilities	(89)	(101)
Debt issues	(137)	(194)
Subordinated notes	(21)	(16)
Preference shares	-	(20)
	(1,023)	(1,303)
Net interest income	492	484
Net fee and commission income		
Fee and commission income	98	91
Fee and commission expense	(61)	(52)
	37	39
Net profits (losses) on derivative and other financial instruments:		
realised	(1)	17
unrealised	(18)	(9)
Other income	2	-
Other operating income	20	47
Total net operating income	512	531

8. Income tax expense

The Group's consolidated effective tax rate for the half-year ended 31 December 2013 was 29.8% (for the half-year ended 31 December 2012: 71.2%).

As at 31 December 2013, the Company is a wholly-owned entity in a tax consolidated group, with Suncorp Group Limited as the head entity.

Income tax expense adjustments have primarily arisen from non-deductible interest paid in respect of the convertible preference shares of \$nil (December 2012: \$5.2 million) and reset preference shares of \$0.1 million (December 2012: \$0.2 million).

9. Investment securities

CONSOLIDATED	Dec 2013	Jun 2013
	\$m	\$m
Available-for-sale financial assets		
Interest-bearing securities	2,572	2,352
	2,572	2,352
Held-to-maturity investments		
Interest-bearing securities	4,080	4,288
	4,080	4,288
Total investment securities	6,652	6,640

Notes to the consolidated interim financial statements (continued)

10. Loans, advances and other receivables

CONSOLIDATED	Note	Dec 2013	Jun 2013
		\$m	\$m
Financial assets at amortised cost			
Housing loans ^{1, 2}		38,284	37,158
Consumer loans		452	463
Business loans		10,448	10,577
Other lending		100	101
Loans to related parties		361	366
		49,645	48,665
Provision for impairment	11.1	(210)	(300)
Total loans, advances and other receivables		49,435	48,365

Notes

1. Includes securitised housing loan balances of \$4,404 million (June 2013: \$5,044 million) which has an equivalent associated securitised liability.
2. Includes housing loan balances of \$2,551 million (June 2013: \$2,716 million) which comprise a covered pool of assets which secure the Group's covered bond issuances.

11. Provision for impairment on loans, advances and other receivables

11.1 Reconciliation of provision for impairment on loans, advances and other receivables

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Collective provision		
Balance at the beginning of the period	102	145
Charge (credit) against impairment losses	(5)	(4)
Balance at the end of the period	97	141
Specific provision		
Balance at the beginning of the period	198	392
Charge against impairment losses	48	196
Impaired assets written off	(124)	(191)
Unwind of discount	(9)	(65)
Balance at the end of the period	113	332
Total provisions	210	473

11.2 Impairment expense on loans, advances and other receivables

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Decrease in collective provision for impairment	(5)	(4)
Increase in specific provision for impairment	48	196
Bad debts written off	7	10
Bad debts recovered	(5)	(8)
Total impairment expense on loans, advances and other receivables	45	194

11.3 Losses on disposal of loans, advances and other receivables

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Losses on disposal of loans and advances	13	21
Total losses on disposal of loans, advances and other receivables	13	21

Notes to the consolidated interim financial statements (continued)

12. Short-term offshore debt securities

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Balance at the beginning of the period	3,999	3,715
Proceeds from issues	3,575	3,458
Repayments	(4,057)	(3,668)
Foreign exchange translation and fair value movements	169	(53)
Balance at the end of the period	3,686	3,452

Short-term offshore debt securities are disclosed within the consolidated interim statement of financial position category of 'Deposits and short-term borrowings'. They are translated to Australian dollars at spot currency rates, with gains and losses recognised in profit or loss as part of 'Other operating income'. These movements are largely offset by movements in derivative hedging positions relating to foreign currency forward exchange contracts.

13. Securitisation liabilities

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Balance at the beginning of the period	4,802	3,839
Proceeds from issues	-	1,000
Transaction costs amortised (incurred)	2	(2)
Net proceeds	2	998
Repayments	(573)	(538)
Foreign exchange translation movements	36	27
Balance at the end of the period	4,267	4,326

Securitisation liabilities have associated securitised home loans which are secured by residential mortgages. Securitisation liabilities issued in a foreign currency are translated to Australian dollars at spot currency rates, with gains and losses recognised in profit or loss as part of 'Other operating income'. These movements are largely offset by movements in derivative hedging positions relating to cross currency swaps.

14. Debt issues

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Balance at the beginning of the period	7,313	9,598
Proceeds from issues	401	987
Transaction costs amortised (incurred)	1	(1)
Net proceeds	402	986
Repayments	(1,368)	(2,281)
Foreign exchange translation movements	86	(53)
Balance at the end of the period	6,433	8,250

Foreign currency debt issues are translated to Australian dollars at spot currency rates, with gains and losses recognised in profit or loss as part of 'Other operating income'. These movements are largely offset by movements in derivative hedging positions relating to cross currency swaps.

Notes to the consolidated interim financial statements (continued)

15. Subordinated notes

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Balance at the beginning of the period	840	666
Repayment on call of subordinated notes	-	(407)
Foreign exchange translation movements	-	8
Balance at the end of the period	840	267

Subordinated notes issued in a foreign currency are translated to Australian dollars at spot currency rates, with gains and losses recognised in profit or loss as part of 'Other operating income'. These movements are largely offset by movements in derivative hedging positions relating to cross currency swaps.

16. Preference shares

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Balance at the beginning of the period	30	762
Repayments on redemption	(30)	-
Transaction costs amortised	-	2
Balance at the end of the period	-	764

Preference shares consisted of Reset Preference Shares (**RPS**) and Convertible Preference Shares (**CPS**).

The RPS were perpetual, paying fixed non-cumulative dividends with certain terms periodically reset. All outstanding RPS were redeemed for cash on 16 September 2013.

The CPS were fully paid preference shares. All outstanding CPS were reinvested in the Suncorp Group's subordinated notes under the Reinvestment Offer on 22 May 2013 or were redeemed for cash on the Mandatory Conversion Date on 14 June 2013.

16.1 Preference share dividends recognised as interest expense

CONSOLIDATED	Dec 2013		Dec 2012	
	¢ per share	\$m	¢ per share	\$m
RPS				
Period from March to September	215	1	212	1
CPS				
September quarter	-	-	119	9
December quarter	-	-	119	9
			-	18

17. Share capital

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Issued capital		
Balance at the beginning of the period	2,452	2,189
Shares issued to parent entity	40	-
Balance at the end of the period	2,492	2,189

Notes to the consolidated interim financial statements (continued)

17.1 Number of ordinary shares on issue

CONSOLIDATED	Dec 2013	Dec 2012
	Number of shares	Number of shares
Balance at the beginning of the period	251,934,572	225,634,572
Issued to parent entity	4,000,000	-
Balance at the end of the period	255,934,572	225,634,572

On 30 September 2013, 4,000,000 new ordinary shares were issued at an issue price of \$10 per share to the parent entity, SBGH Limited.

18. Capital notes

CONSOLIDATED	Dec 2013	Dec 2012
	\$m	\$m
Balance at the beginning of the period	450	-
Issued to ultimate parent entity	-	450
Balance at the end of the period	450	450

The Capital notes are perpetual, subordinated notes issued to the Group's ultimate parent entity, Suncorp Group Limited, on 17 December 2012. The number of capital notes on issue as at 31 December 2013 was 4,500,000 (December 2012: 4,500,000). The 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.

18.1 Dividends paid on capital notes

CONSOLIDATED	Dec 2013		Dec 2012	
	¢ per note	\$m	¢ per note	\$m
Capital notes				
September quarter	131	6	-	-
December quarter	126	6	-	-
		12		-

19. Reserves

CONSOLIDATED	Equity reserve for credit losses	Hedging reserve	Assets available-for-sale reserve	Common control reserve	Total
	\$m	\$m	\$m	\$m	\$m
Balance as at 1 July 2013	131	(61)	(4)	(372)	(306)
Transfer to retained profits	(6)	-	-	-	(6)
Amount recognised in equity	-	30	5	-	35
Amount transferred from equity to profit or loss	-	2	7	-	9
Income tax	-	(11)	(4)	-	(15)
Balance as at 31 December 2013	125	(40)	4	(372)	(283)
Balance as at 1 July 2012	147	(110)	(4)	(372)	(339)
Transfer from retained profits	(14)	-	-	-	(14)
Amount recognised in equity	-	22	7	-	29
Amount transferred from equity to profit or loss	-	15	(12)	-	3
Income tax	-	(16)	1	-	(15)
Balance as at 31 December 2012	133	(89)	(8)	(372)	(336)

Notes to the consolidated interim financial statements (continued)

20. Capital

20.1 Capital adequacy

The Group's approach to calculating its regulatory capital base and risk-weighted exposures is consistent with the risk-based approach prescribed by APRA and is outlined in the Group's consolidated financial report for the year ended 30 June 2013. There were no changes in the Group's approach since 1 July 2013.

Capital reforms

In December 2010, in response to the global financial crisis, the Basel Committee on Banking Supervision (Basel Committee) released a package of reforms (Basel III) to raise the level and quality of regulatory capital in the global banking system.

Included in this package were expanded disclosure requirements that are intended to improve the transparency of regulatory capital and to enhance market discipline.

The reforms became effective from 1 January 2013.

The composition of capital disclosure measures are set out in the Basel Committee's Composition of capital disclosure requirements (June 2012) which include a common disclosure template, capital reconciliation, a summary of the main features of regulatory capital instruments and other regulatory disclosures.

The Group has included these capital disclosures as part of its Basel III APS 330 publication which is available under the regulatory disclosures section of the website at www.suncorpgroup.com.au/investors.

21. Fair value of financial instruments

21.1 Comparison of fair value to carrying amounts

The following financial assets and liabilities are recognised and measured at fair value and therefore their carrying value equates to their fair value:

- Trading securities
- Certain investment securities designated as available-for-sale
- Certain short-term offshore borrowings designated as financial liabilities at fair value through profit or loss
- Derivatives.

The basis for determining their fair values has not changed since 30 June 2013 and is described in note 28.2 to the Suncorp-Metway Limited and subsidiaries financial report for the financial year ended 30 June 2013.

Notes to the consolidated interim financial statements (continued)

21. Fair value of financial instruments (continued)

21.1 Comparison of fair value to carrying amounts (continued)

The table below discloses a comparison of carrying value and fair value of financial assets and liabilities that are not recognised and measured at fair value. Significant assumptions and estimates used in determining their fair values has not changed since 30 June 2013 and are described in note 28.2 to the Group's consolidated financial report for the year ended 30 June 2013.

CONSOLIDATED	Dec 2013		Jun 2013	
	Carrying value \$m	Fair value \$m	Carrying value \$m	Fair value \$m
Financial assets				
Loans, advances and other receivables	49,435	49,493	48,365	48,443
Investment securities ¹	4,080	4,124	4,288	4,327
Financial liabilities				
Deposits and short-term borrowings ²	40,911	41,025	39,862	39,935
Securitisation liabilities	4,267	4,267	4,802	4,802
Debt issues	6,433	6,488	7,313	7,490
Subordinated notes	840	840	840	840
Preference shares	-	-	30	30

Notes

1. Includes only held-to-maturity investments.
2. Excludes short-term offshore debt securities.

21.2 Fair value hierarchy

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

- Level 1 – derived from quoted prices (unadjusted) in active markets for identical financial instruments that the Group can access at 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; or
- Level 3 – fair value measurement is not based on observable market data.

CONSOLIDATED	Dec 2013			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial assets				
Trading securities	-	2,129	-	2,129
Investment securities ¹	-	2,572	-	2,572
Derivatives	1	426	24	451
	1	5,127	24	5,152
Financial liabilities				
Deposits and short-term borrowings ²	-	(3,686)	-	(3,686)
Derivatives	-	(450)	(44)	(494)
	-	(4,136)	(44)	(4,180)

Notes

1. Includes only available-for-sale financial assets.
2. Includes only short-term offshore debt securities.

There have been no significant transfers between Level 1 and Level 2 during the half-year ended 31 December 2013.

Notes to the consolidated interim financial statements (continued)

21. Fair value of financial instruments (continued)

21.2 Fair value hierarchy (continued)

Level 3 derivatives relate to long-dated interest rate swaps and cross currency swaps in relation to the Apollo securitisation trusts where a significant input is the amortisation profile of the mortgage portfolio. The valuation methodology for derivative financial instruments classified within Level 3 of the fair value hierarchy is based on market data using observable quoted rates for actively traded tenor points. Where interpolation is used to value an instrument for the correct time periods, observable inputs such as the bank bill swap rate (BBSW), yield curve and swap curve rates are used.

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

The following table discloses the movements in financial instruments classified as Level 3 in the fair value hierarchy:

CONSOLIDATED	Dec 2013	
	Asset	Liability
	Derivatives	Derivatives
	\$m	\$m
Balance at the beginning of the period	41	(101)
Change in fair value recognised in other operating income ¹	(6)	43
Change in fair value recognised in equity	-	(2)
Transfer out to Level 2	(11)	16
Balance at the end of the period	24	(44)

Note

1. All gains/losses included in profit or loss relate to assets and liabilities held at the end of the period (i.e. unrealised).

22. Changes in the composition of the Group

The Group did not acquire nor dispose of any material subsidiaries or interests in joint venture entities or associates during the current or prior interim reporting periods.

23. Related parties

Except as disclosed below, arrangements for related parties continue to be in place as disclosed in the consolidated financial report for the financial year ended 30 June 2013.

Changes in the composition of key management personnel

The following changes to Senior Executives (defined as the executives reporting to the Group CEO who are key management personnel) were made effective 9 December 2013:

- Former Group Chief Financial Officer, Mr John Nesbitt, was appointed as the Chief Executive Officer Suncorp Bank.
- Chief Executive Officer Suncorp Bank, Mr David Foster, providing transition and handover to Mr Nesbitt.
- Former Group Deputy Chief Financial Officer, Mr Steve Johnston, was appointed as the Group Chief Financial Officer.
- Mr Mark Reinke, Group Executive Marketing, was appointed as a Senior Executive.

24. Contingent assets and liabilities

There have been no material changes in contingent assets or contingent liabilities since 30 June 2013.

25. Subsequent events

There has not arisen in the interval between 31 December 2013 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

Directors' declaration

In the opinion of the directors of Suncorp-Metway Limited (the Company):

1. the financial statements and notes set out on pages 5 to 19, 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 2013 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 the *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:

Dr Zygmunt E Switkowski
Chairman

Patrick J R Snowball
Managing Director and Group CEO

19 February 2014



Independent auditor's review report to the members of Suncorp-Metway Limited

We have reviewed the accompanying interim financial report of Suncorp-Metway Limited (the **Company**), which comprises the consolidated interim statement of financial position as at 31 December 2013, 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 25 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the 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 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 2013 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 an 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.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Suncorp-Metway Limited is not 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 2013 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 the *Corporations Regulations 2001*.

KPMG

Paul Reid

Partner

Brisbane

19 February 2014