Suncorp-Metway Limited

(ABN 66 010 831 722)

Disclosure Report (U.S. Version)
for the Fiscal Year ended June 30, 2019

Dated: September 13, 2019

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for fiscal 2019 (as defined below) (this "Report"), unless otherwise specified or the context otherwise requires:

- "*AASBs*" mean the Australian Accounting Standards (including Australian interpretations), adopted by the Australian Accounting Standards Board, which are equivalent to IFRS;
- "*AASB 9*" means the Australian Accounting Standard *AASB 9 Financial Instruments*;
- "*ABA*" means the Australian Banking Association;
- "*ABN*" means Australian Business Number;
- "*ABSF*" means the Australian Business Securitisation Fund;
- "*ACCC*" means the Australian Competition and Consumer Commission;
- "*ADI*" means an institution that is an authorized deposit-taking institution under the Australian Banking Act and regulated as such by APRA;
- "*APRA*" means the Australian Prudential Regulation Authority and its successors;
- "*APS 110*" means APRA's Prudential Standard *APS 110: Capital Adequacy;*
- *"APS 120"* means APRA's Prudential Standard *APS 120: Securitisation*;
- "*APS 210*" means APRA's Prudential Standard *APS 210: Liquidity*;
- "*APS 221*" means APRA's Prudential Standard *APS 221: Large Exposures*;
- "*APS 330*" means APRA's Prudential Standard *APS 330: Public Disclosure*;
- "*AML-CTF*" means the Anti-Money Laundering and Counter Terrorism Financing Act 2006 of the Commonwealth of Australia;
- "*ASIC*" means the Australian Securities and Investments Commission and its successors;
- "*ASX*" means the Australian Securities Exchange operated by ASX Limited (ACN 008 624 691) and its successors;
- "*Australian Banking Act*" means the Banking Act 1959 of the Commonwealth of Australia;
- "*Australian Corporations Act*" means the Corporations Act 2001 of the Commonwealth of Australia;
- *"Australian FSTR Act"* means the Financial Sector (Transfer and Restructure) Act 1999 of the Commonwealth of Australia;

- "*Australian Productivity Commission*" means the Australian Government's principal review and advisory body on microeconomic policy, regulation and a range of other social and environmental issues;

- "*AUSTRAC*" means the Australian Transaction Reports and Analysis Centre;

- "*A$*" or "*$*" means the Australian dollar and "*US$*" means the US dollar and "*A$m*" means millions of Australian dollars and "*US$m*" means millions of US dollars;

- "*Bank*," "*we*," "*our*" and "*us*" each means Suncorp-Metway Limited (ABN 66 010 831 722) and its controlled entities;

- *"Basel II"* means the risk-based capital adequacy framework set out in the Basel Committee's publication, "*International Convergence of Capital Measurement and Capital Standards: A Revised Framework*", released in June 2004 and revised in June 2006;

- "*Basel III*" means the risk-based capital adequacy framework set out in the Basel Committee's publication, "*Basel III: A global regulatory framework for more resilient banks and banking systems*", released in December 2010 and revised in June 2011;

- "*Basel Committee*" means the Basel Committee on Banking Supervision;

- *"BEAR"* means the banking executive accountability regime introduced by the *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018* passed by the Australian Parliament;

- *"Board"* means the Board of Directors of the Group, which governs the Bank;

- "*BSB*" means Bank-State-Branch, which is a six-digit number that identifies banks and bank branches or stores within Australia;

- "*Business Centers*" means the Bank's network of locations where customers can meet with members of the Bank's business customer team and that have facilities designed to assist business customers. Business Centers are not Stores, however, a number of the Bank's Stores also have Business Center capabilities and include members of the Bank's business customer team;

- "*Business Improvement Program*" or "*BIP*" means the Group-wide program that is driving several initiatives across the Group, including, digitization of the customer experience, sales and service channel optimization, end-to-end process improvement, claims supply chain re-design and smarter procurement;

- "*CDR policy*" means the Australian Government's "Consumer Data Right" policy, which seeks to give consumers the right to safely access certain data concerning their personal circumstances held by businesses;

- "*CDR Bill*" means the *Treasury Laws Amendment (Consumer Data Right) Bill 2018*;

- "*CLF*" means Committed Liquidity Facility;

- "*Code*" means the Banking Code of Practice;

- "*controlled entities*" means those entities (including special purpose entities) over which another part has the power to govern, directly or indirectly, decision making in relation to financial and operating policies, so as to require that entity to conform with such controlling party's objections;

- "*CPS 234*" means APRA's draft Prudential Standard *CPS 234: Information Security*;

- "*Customer and Digital function*" means the new business function of the Group that develops innovative, digital-first customer propositions, building on Suncorp's strong digital foundations. The Customer and Digital function has responsibility for Group customer and digital strategy; digital distribution; brand and marketing; and the Enterprise Portfolio Management Office;

- *"Customer Funding*" means the sum of customer at-call and term deposits as stated in the consolidated financial statements;

- "*Customer Marketplace function*" means a former business function of the Group that was responsible for customer interactions through channels such as Stores, contact centers, agents, brokers, partners or online using digital marketplaces. This business function was in operation until the organizational changes announced on August 7, 2019;

- "*Customer Platforms*" means a former business function of the Group that was consolidated into the Customer Marketplace function in October 2017;

- "*CVA*" means Credit Valuation Adjustment which is an adjustment to the fair value of a derivative instrument to account for counterparty credit risk;

- "*deposits-to-loans ratio*" means total customer funding as a percentage of gross loans and advances (excluding other lending);

- "*Design and Distribution Bill*" means the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2017* and the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018*;

- "*ECL*" means Expected Credit Losses;

- "*Enterprise Portfolio Management Office*" means the office that works collaboratively across the Group and within functions to oversee and govern the Group's project portfolio;

- "*Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended;

- "*FASEA*" means the Financial Adviser Standards and Ethics Authority;

- "*Final Report*" means the final report of the Royal Commission released publicly on February 4, 2019;

- "*FVOCI*" means fair value through other comprehensive income;

- "*Group*" means Suncorp Group Limited (ABN 66 145 290 124) and its controlled entities, including the Bank;

- "*IFRS*" means the International Financial Reporting Standards, as issued by the International Accounting Standards Board;

- "*ICAAP*" means internal capital adequacy assessment process;

- "*IGA*" means Inter-Governmental Agreement;

- "*IRB*" means the internal ratings-based approach to credit risk;

- "*LCR*" means Liquidity Coverage Ratio;

- "*LGD*" means loss given default;

- "*LVR*" means loan-to-value ratio;

- "*Major Bank Levy*" means the levy that applies to ADIs with licensed entity liabilities of greater than A$100 billion as of July 1, 2017, calculated quarterly as 0.015% of relevant liabilities as at each APRA mandated quarterly reporting date (indexed to grow in line with nominal Australian GDP);

- "*Marketplace*" was the term used for the connected network of brands across the Group and partner ecosystem that formed part of the Group and Bank strategy prior to the organizational changes announced on August 7, 2019;

- *"Net Interest Margin"* means the difference between the interest income generated and the amount of interest paid out to lenders, relative to the amount of interest-earning assets. Calculated as ((net interest income) / (average interest earning assets)) / (number of days in period) x 365;

- "*NOHC*" means an authorized non-operating holding institution of an ADI;

- "*NOHC Restructure*" means the reorganization of Suncorp-Metway Limited pursuant to a scheme of arrangement effective January 7, 2011;

- "*Non-Core Portfolio*" means a portfolio of loans attributable to the former Corporate Banking, Development Finance, Property Investment and Lease Finance divisions of the Bank that, in 2009, the Bank commenced a program to run off over time. The Non-Core Portfolio is now managed as part of the Bank's commercial (SME) loan portfolio;

- *"NPP"* means the New Payments Platform;

- "*NSFR*" means the Net Stable Funding Ratio, which is a 12 month structural funding metric introduced by APRA;

- *"OTC"* means over-the-counter;

- "*QIDC*" means the Queensland Industry Development Corporation;

- "*RBA*" means the Reserve Bank of Australia;
- *"Reward and Recognition Program"* means the online benefits program available to customers for being part of the Suncorp network. It offers a suite of benefits to customers of the Group and the Bank in reward for their loyalty including savings on everyday expenses with over 100 partners of the Group and the Bank;
- "*RMBS*" means residential mortgage backed securities;
- "*Royal Commission*" means the Royal Commission (i.e., a public inquiry in Australia) into 'Misconduct in the Banking, Superannuation and Financial Services Industry' established by the Australian Government on December 14, 2017;
- "*SA-CCR*" means the standardized approach for counterparty credit risk exposures as set out in *The standardised approach for measuring counterparty credit risk exposures*, published by the Basel Committee;
- "*SICR*" means a significant increase in credit risk;
- "*SME*" means small- to medium-sized enterprise;
- "*Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries*" means the document so entitled, which is incorporated by reference and has been posted on the U.S. Investors' Website;
- "*Store Code*" means the identification number allocated to each Store;
- "*Stores*" means the Group's physical distribution network, which includes the locations formerly known as branches;
- "*Strategic Innovation*" means a former business function of the Group that was consolidated into the Customer Marketplace function in October 2017;
- "*Suncorp App*" means the Group's mobile banking application, which brings the Group's network of brands together in one digital marketplace by integrating banking and insurance functionality and enabling customers to manage their finances and relationships with the Group network;
- "*threshold transaction*" means each cash transaction of A$10,000 or more that is transacted through a relevant reporting entity, such as the Bank, and that must be reported to AUSTRAC by the submission of a TTR;
- "*TTR*" means a Threshold Transaction Report, which is a report submitted to AUSTRAC by a relevant reporting entity, such as the Bank, in relation to cash transactions of A$10,000 or more;
- "*US GAAP*" means U.S. generally accepted accounting principles;
- "*U.S. Investors' Website*" means the Bank's U.S. investors' website at http://www.suncorp.com.au/banking/usinvestors;

- “*2017 annual financial statements*” means the Bank’s consolidated financial statements for fiscal 2017, as audited by its external auditor in accordance with Australian Auditing Standards, contained in the 2017 Annual Report;

- “*2017 Annual Report*” means the Bank’s Directors’ Report and Consolidated Financial Report for fiscal 2017, extracts of which are incorporated by reference and have been posted on the U.S. Investors’ Website;

- “*2018 annual financial statements*” means the Bank’s consolidated financial statements for fiscal 2018, as audited by its external auditor in accordance with Australian Auditing Standards, contained in the 2018 Annual Report;

- “*2018 Annual Report*” means the Bank’s Directors’ Report and Consolidated Financial Report for fiscal 2018, extracts of which are incorporated by reference and have been posted on the U.S. Investors’ Website;

- “*2019 annual financial statements*” means the Bank’s consolidated financial statements for fiscal 2019, as audited by its external auditor in accordance with Australian Auditing Standards, contained in the 2019 Annual Report; and

- “*2019 Annual Report*” means the Bank’s Directors’ Report and Consolidated Financial Report for fiscal 2019, extracts of which are incorporated by reference and have been posted on the U.S. Investors’ Website.

The Bank’s fiscal or financial year ends on June 30 of each year. In this Report, (i) “fiscal 2019” means the 12-month period ended June 30, 2019 and other fiscal years are referred to in a corresponding manner, (ii) “calendar 2019” means the 12-month period ended December 31, 2019 and other calendar years are referred to in a corresponding manner.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements that constitute "forward-looking statements" within the meaning of Section 21E of the Exchange Act. Examples of these forward-looking statements include, but are not limited to (i) statements regarding the Bank's future results of operations and financial condition, (ii) statements of plans, objectives or goals, including those related to the Bank's products or services, and (iii) statements of assumptions underlying those statements. Words such as "may," "will," "expect," "intend," "plan," "estimate," "anticipate," "believe," "continue," "probability," "risk," and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. The Bank cautions readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the effects of competition in the geographic and business areas in which the Bank conducts operations or which it may enter in the future, including new sources of competition from non-traditional sources, associated technological advancement and disruptive business models and the Bank's ability to obtain advanced accreditation under the risk-based capital adequacy framework set out in the Basel Committee's publication, "*International Convergence of Capital Measurement and Capital Standards a Revised Framework*" ("Basel II");

- operating in a highly regulated industry and the Bank's ability to comply with existing laws and regulations;

- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, and government policy, including as a result of the regulatory proposals for reform of the banking industries in Australia;

- the effect of increased levels of government and regulatory scrutiny, including the negative publicity that accompanies such an increase;

- the Royal Commission's findings may lead to regulatory enforcement activity, litigation and changes in laws, regulations or regulatory policy, and may result in reputational damage to the Bank;

- changes in the political and general business and economic conditions in Australia and globally, in particular, the impact of market conditions on the Bank's customers in its key markets and the impact of weather and market prices of agricultural commodities on agribusiness;

- changes in the conditions in the global credit and capital markets, including inflation, interest rates, exchange rates, market and monetary fluctuations, commodity prices and consumer confidence and changes in depositor preferences;

- the Bank's ability to adequately fund its operations and satisfy its liquidity requirements;

- changes in the credit ratings assigned to the Bank;

- the effects of a systemic shock in relation to the Australian or other global financial systems caused by factors such as continuing market volatility and the outlook for global economic conditions;

- declining asset values, particularly the residential, commercial and agriculture property values in Queensland;

- the effect of increases in defaults in the Bank's credit exposures from residential mortgages and derivative contracts over debt securities;

- the effectiveness of risk management strategies implemented by the Bank, including technological changes and initiatives to address certain operational risks;

- the failure to successfully implement the Group's operating model as it relates to the Bank, or failure to successfully execute its strategic programs;

- the impact of the Group or the Bank failing to successfully execute strategic opportunities, such as mergers, acquisitions or divestments;

- the Bank's ability to update and implement new information technology systems, including the core banking platform;

- the impact of technology failures, information security risks, data or privacy breaches, and cyber-attacks on the Bank and its operations;

- the failure to manage operational risks;

- the effect of catastrophic events on the Bank and its operations;

- the impact of reputational damage on the Group or the Bank;

- the reliance on staff and damage to the Bank resulting from inappropriate conduct;

- the impact of regulatory fines and sanctions, as well as reputational damage, contractual damage claims and other potential material claims and penalties, in the event of breaches of financial crime legislation and regulations;

- the performance and financial condition of the Group and members of the Group that are not part of the Bank;

- the impact of losing key staff and the failure to attract new highly qualified people to fill human resources requirements;

- litigation, regulatory actions and contingent liabilities; and

- various other factors beyond the Bank's control, including those discussed under "Risk Factors" and "Management's Discussion and Analysis of Results of Operation and Financial Condition."

The foregoing list of factors is not exhaustive. Statements that include forward-looking statements reflect the Bank's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Report as anticipated, believed, estimated, expected or intended.

Forward-looking statements are based upon management's good faith assumptions relating to the financial, market, regulatory and other relevant environments that will exist and affect the Bank's business and operations in the future. The Bank cannot give investors any assurance that the assumptions upon which management based its forward-looking statements will prove to be correct, or that the Bank's business and operations will not be affected in any substantial manner by other factors not currently foreseeable by management or beyond its control. Any forward-looking statements contained in this Report speak only as of the date of this Report. The Bank is under no obligation, and disclaims any obligation, to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Report.

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

The Australian dollar is convertible into US dollars at freely floating rates, subject to the sanctions described below. The Autonomous Sanctions Regulations 2011 promulgated under the Autonomous Sanctions Act 2011 of the Commonwealth of Australia, the Charter of the United Nations Act 1945 of the Commonwealth of Australia, and other laws and regulations in Australia restrict or prohibit payments, transactions and dealings with assets having a prescribed connection with certain countries or named individuals or entities subject to international sanctions or associated with terrorism or money laundering.

The Australian Department of Foreign Affairs and Trade maintains a list of all persons and entities having a prescribed connection with terrorism and a list of all persons and entities that are subject to autonomous sanctions (which include economic sanctions) which are available to the public at the Department's website at http://www.dfat.gov.au/icat/UNSC_financial_sanctions.html.

FINANCIAL INFORMATION PRESENTATION

The Bank's 2019 Annual Report includes the Bank's financial statements as at June 30, 2019 and 2018 and for fiscal 2019 and 2018, which have been audited by the Bank's external auditor in accordance with Australian Auditing Standards. The Bank's 2018 Annual Report includes the Bank's financial statements as at June 30, 2018 and 2017 and for fiscal 2018 and 2017, which have been audited by the Bank's external auditor in accordance with Australian Auditing Standards. The Bank's 2017 Annual Report includes the Bank's financial statements as at June 30, 2017 and 2016 and for fiscal 2017 and 2016, which have been audited by the Bank's external auditor in accordance with Australian Auditing Standards. The Bank's 2016 Annual Report includes the Bank's financial statements as at June 30, 2016 and 2015 and for fiscal 2016 and 2015, which have been audited by the Bank's external auditor in accordance with Australian Auditing Standards.

The Bank's financial statements contained or incorporated by reference in this Report have been prepared in accordance with the Australian Corporations Act and AASBs, which comply with IFRS. Investors should be aware that AASBs differ in certain material respects from US GAAP, and such differences may be material to the financial information contained or incorporated by reference in this Report or elsewhere. The Bank has not provided a quantitative reconciliation or narrative discussion of any of those differences in this Report. Investors should consult their own professional advisors for an understanding of the differences between AASBs and US GAAP and how those differences might affect the financial information contained or incorporated by reference in this Report and, more generally, the financial results of the Bank going forward.

The Bank has presented its consolidated statements of financial position as at June 30, 2019, 2018, 2017, 2016 and 2015, its consolidated statements of comprehensive income (and statements of cash flow) for fiscal 2019, 2018, 2017, 2016 and 2015, as they are presented in the Bank's 2019 annual financial statements, 2018 annual financial statements, 2017 annual financial statements and 2016 annual financial statements, as applicable. All other tables (except those relating to the Bank's regulatory capital which are presented in accordance with the Bank's APS 330 reports) are presented on the same basis as the Bank's 2019 annual financial statements, 2018 annual financial statements and 2017 annual financial statements, as applicable, except that, consistent with the Bank's other public disclosures, they do not include the Bank's exposures to, or transactions with, related parties within the Group. For more information, see Note 28 to the Bank's 2019 annual financial statements and "Suncorp-Metway Limited — Relationship between the Group and the Bank."

The significant accounting policies adopted by the Bank are reported in Note 31 to the Bank's 2019 annual financial statements, Note 31 to the Bank's 2018 annual financial statements, Note 31 to the Bank's 2017 annual financial statements and Note 31 to the Bank's 2016 annual financial statements.

Where there has been a percentage movement greater than 500% or (500)%, this has been labeled "large." If a line item changes from negative to positive (or vice versa) between periods, this has been labeled "n/a".

SUMMARY

The following is a summary of certain information contained elsewhere in this Report. It does not contain all the information that may be important and is qualified in its entirety by the more detailed information appearing elsewhere in this Report. You should read this Report in its entirety, particularly the "Risk Factors" section and the financial statements and the notes related thereto.

Overview

The Bank was founded in 1902 as the Queensland Agricultural Bank and has provided banking services to individuals, SMEs and agribusinesses in regional communities of Australia for more than 115 years. The Bank is an ADI regulated by APRA and is headquartered in Brisbane, Australia. It is a wholly-owned subsidiary of Suncorp Group Limited, a diversified financial institution and among the top 20 largest companies listed on the ASX with total assets of A$96.2 billion as at June 30, 2019 and a market capitalization of A$17.8 billion (US$12.2 billion) as at September 6, 2019.

The Bank is one of Australia's largest regional banks with A$59.3 billion of gross loans and advances as at June 30, 2019. It services approximately one million individual, agribusiness, and commercial (SME) banking customers, primarily in Queensland. The Bank provides a range of financial services and simple banking products, which include:

- Retail banking, including home and personal loans, savings, investment and transaction accounts, credit cards and foreign currency services;
- Commercial (SME) banking, including small business banking and financial solutions for SMEs; and
- Agribusiness banking, including financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

As at June 30, 2019, the Bank had A$66.7 billion in total assets. The Bank reported a profit before income tax of A$508 million for fiscal 2019 compared with a profit before income tax of A$494 million for fiscal 2018 and a profit before tax of A$562 million for fiscal 2017. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Results of Operations" for further information.

The Bank's registered office is located at Level 28, Brisbane Square, 266 George Street, Brisbane, Queensland 4000 and its telephone number is +61-7-3362-1222.

Corporate History

Prior to the NOHC Restructure, Suncorp-Metway Limited was the parent company of what is now the Group's general insurance, banking and superannuation businesses. Following the NOHC Restructure, which was effective January 7, 2011, the Bank became a wholly owned subsidiary of Suncorp Group Limited, an ASX-listed company. Although the Bank's ordinary shares are no longer listed on ASX, it has floating rate capital notes listed on ASX and, accordingly, the Bank currently remains subject to the disclosure and other requirements of ASX as they apply to companies with ASX listed debt securities. See "Suncorp-Metway Limited — Reorganization" for further information.

Following the global financial crisis, the Group undertook a strategic review of its operations and determined to focus on the Bank's core operations in the relatively lower risk lending businesses of retail, agribusiness and commercial (SME) and to run off its Non-Core Portfolio. As at June 30, 2019, only a residual portfolio of non-core assets remained. The majority of this residual portfolio is managed as part of the Bank's commercial (SME) loan portfolio.

In addition to the ongoing de-risking of its businesses, the Group announced the Business Improvement Program (or "BIP") in 2017. BIP is a Group-wide program aimed at driving operational efficiencies across the Group and the Bank and is focused on sustainable initiatives that improve the customer experience, drive efficiencies and embed a culture of continuous improvement. BIP delivered a total net benefit to the Group of A$280 million for fiscal 2019, exceeding the original target for fiscal 2019. As at June 30, 2019, gross benefits to the Group were A$351 million, with the greatest contributor to the increase flowing from procurement initiatives and streamlining business activities.

Business Strategy

The Bank principally operates as a regional bank and seeks to grow its business in its primary market of Queensland, as well as in New South Wales, Victoria and South Australia. The Bank strives to achieve this objective by leveraging the Group's operating model to deliver value for the customer.

Operating Model update

The Group's operating model places the customer at the center of the business with all customers treated as Group customers, and allows the Bank to leverage the Group's investments in simplification and optimization programs.

The Group's operating model supports its focus on meeting the financial needs of customers through banking, wealth, insurance and partnered products and services, and allowing customers to interact digitally (online or through apps) or physically (through Stores or Business Centers) or through contact centers (call centers) and intermediaries.

Under this operating model, the Group has three operational business units, Banking and Wealth, Insurance and Suncorp New Zealand (which were previously referred to as Bank, Life and General Insurance). On February 28, 2019, the Group completed the sale of its Australian life insurance business. The transaction was structured as a sale of 100% of the shares in Suncorp Life & Superannuation Limited, which included the Group's Australian life risk and participating annuities and unit-linked wealth business but excluded the Australian Wealth Suncorp Portfolio Services Limited superannuation business.

Each of the Group's operational business units is responsible for product design and manufacturing, physical distribution, claims management (for the Group's insurance businesses), the delivery of industry-leading experiences and end-to-end responsibility for the statutory entities within the Group.

The operational business units of the Group are supported by the new Customer and Digital function, established on August 7, 2019. The new function aims to develop innovative, digital-first customer propositions, building on Suncorp's digital foundations. The Customer and Digital function has responsibility for Group customer and digital strategy; digital distribution; brand and marketing; and the Enterprise Portfolio Management Office.

In addition, the Customer and Digital function and operational business units are supported by, and receive shared services from, the following four key Group corporate functions, which include:

- ***Technology, Data & Labs***, which is responsible for all technology, digital enablement, cloud and infrastructure protective services, projects and programs and a new innovation labs function. This function focuses on delivering the systems and initiatives required to create, maintain and continuously improve customer platforms while ensuring stability and security;

- ***People Experience***, which includes human resources and is also responsible for real estate, learning and partnering. The People Experience function is intended to identify the talent, capability and environmental needs to help the Bank execute on its platform for growth;

- ***Finance, Legal & Advice***, which is responsible for performance management, Group capital, investment strategy, corporate development, cost control, cash management, finance systems, financial control, financial and regulatory reporting, Group tax, corporate affairs and investor relations and procurement. Since October 2017, this function has been responsible for overseeing the Group's legal affairs and the mitigation of legal risks throughout Australia and New Zealand, along with company secretariat and governance services for the Group in both countries; and

- ***Risk***, which is responsible for leading the risk management, compliance and internal audit disciplines of the Group.

There are no current plans to change the existing legal entities, the composition of businesses within the Bank or the governance structures of the Group.

Bank's Strategy

The key strategic priorities of the Group, and the Bank, are:

- "*Brilliant customer experience*": The Group and the Bank seek to enhance and build trust with customers, including in differentiated ways to peers, by enhancing brand propositions that leverage the broader Group ecosystem and the Reward and Recognition Program. This work is underpinned by customer segmentation that facilitates the development of differentiated, targeted propositions for customers. A 'brilliant customer experience' involves meeting customers' expectations for timely and convenient fulfilment of product and service needs when they make contact through each of the Group's channels.

- *"Digital":* The Group and the Bank intend to continue to mature their digital capabilities to facilitate delivery of three streams of digital enablement: (1) differentiated digital propositions, (2) self-service and (3) digitized and automated processes. Over the past two years the Group has invested in the foundations needed to implement differentiated digital propositions. The Group will seek to leverage these foundations to continue to enhance product and service offerings. The Group's digital assets are expected to be particularly valuable under the Open Banking regime where the Group and the Bank can leverage data to attract customers and incentivize existing customers to share their data.

- "*Product innovation*": This involves ongoing strengthening of product capability (including in relation to design, risk selection and pricing) and innovating new solutions (e.g. telematics, whole of person care, cyber insurance). The focus across the core businesses will be on portfolios where the Group and the Bank have competitive advantage or the opportunity is material.

- *"Engaged and enabled people*": To deliver the strategy, the Group and the Bank need to continue to build an inclusive, diverse and highly engaged workforce that is the right size and shape to deliver business goals while working as one team. The Group and the Bank aim to achieve this goal through a focus on aligning people to the Group's purpose and strategy, creating pride in the Group through building an environment where people are energized and optimistic, and preparing people for the future of work.

The Bank is in the process of implementing a number of initiatives to deliver the following strategic priorities:

Pursuing targeted growth. The Bank is working to leverage technology and risk management capabilities, with the objective of driving growth and building market share in its banking portfolio.

The Bank supports its retail banking growth through simplified processes, clear product and service propositions, improved digital capabilities for personal customers, competitive market offerings, and enhanced origination and servicing capabilities. The Bank seeks to grow its business banking portfolio through targeted offers within selected well-known market segments and industries within the Bank's risk profile. The Bank has introduced several initiatives intended to enhance long-term growth in the business lending portfolio. These initiatives include streamlining the loan approval process.

In agribusiness banking, the Bank seeks to pursue growth within select industries and geographies while adapting to changing conditions and exercising caution with its approach to risk selection in this sector. The Bank continues to utilize a collaborative customer approach to supporting customers and communities under stressed conditions and will continue to pursue diversified growth across its targeted regions and industries. A clear risk appetite continues to guide decisions around new business.

There continues to be increased focus on transactional banking across the Bank to maximize financial outcomes, improve resilience, meet more customer needs and deepen relationships through frequent interaction points. The increase in stable deposits (at-call and term deposits) supports the maintenance of an appropriate Net Stable Funding Ratio ("NSFR") position and enables a comparative funding advantage, relative to the Bank's prior results, which enables targeted asset growth.

The Bank is focused on improving product and system capabilities, by both manufacturing and partnering to make banking easier for its customers and leveraging its investment in digital and payments capabilities to expand its presence interstate, supported by the national rollout of the Suncorp brand. This includes leveraging the Bank's investment made in online origination capability, additional self-service functionality and the introduction of digital wallets, to deliver increased value to customers as cashless transactions continue to increase.

The RBA-backed New Payments Platform ("NPP") launched in Australia in February 2018. A number of financial institutions, including the Bank, have connected or intend to connect to the payments infrastructure to enable fast, versatile and data-rich payments. The NPP seeks to provide a platform that will enable real-time clearing and settlement for payments and other features, such as an addressing service, which will enable the use of email addresses, phone numbers or ABNs. The Bank participates in the NPP via an indirect participation model and is sponsored by a Full Participant (as that term is described in the NPP Regulations published by NPP Australia Limited), via an agency mandate. From May 2019, the Bank enabled eligible customers to send and receive real-time payments via their BSBs and account numbers, with Pay ID functionality planned to follow later in staged releases in the second half of fiscal 2020. Pay ID functionality allows customers to register and maintain their unique information (e.g., email addresses, phone numbers or ABNs) and link it to a BSB and account number to enable payments via this unique information.

The Group and the Bank also regularly assess various strategic opportunities to enhance shareholder value that may, from time to time, include mergers, acquisitions or divestments.

Operational Excellence. The Australian banking market is dominated by four major Australian banks that are able to leverage their scale to drive down unit costs. At the same time, new entrants and non-traditional competitors are utilizing new digital technologies to create low cost business models. The Bank is targeting to reduce its cost-to-income ratio over the longer term through a focus on simplifying its business to drive efficiency outcomes.

The Group and the Bank are driving the Business Improvement Program. The BIP is a Group-wide program focusing on five streams of work, four of which are relevant to the Bank. The four streams of work relevant to the Bank are as follows:

- Digitization of customer experiences – designed to improve capability for customers to interact digitally by encouraging self-service and control over policies and accounts;

- Sales and service channel optimization – designed to reduce handling time, optimize physical footprint and ensure focus is on services that drive the most value for customers, such as in-store sales and face-to-face interactions;

- End-to-end process improvement – designed to drive operational excellence to improve customer satisfaction and retention, and attract new customers to the Bank; and

- Smarter procurement and streamlining the business – designed to reduce costs by reviewing arrangements with the Bank's strategic partners and suppliers. This stream of work is designed to also optimize the support functions and partnering arrangements for the Group and the Bank.

The Bank aims to be responsive to changes in the competitive landscape through continued focus on meeting customer needs and through investment in its digital and channel capabilities, product enhancement, risk management and people.

The core banking platform is substantially in place, with retail lending functionality implemented and in use. The migration of deposits and transaction banking products has been paused, pending further system enhancements from the vendor and demonstrated use of the software in the market. Certain components of the legacy platform will be retained until such time as the functionality and performance of these new components have been adequately tested in the market and the Bank is satisfied that they may be transferred to the core banking platform.

Lender activity from the Banking and Wealth business is aligned to the Bank. The core banking platform combines an automated decision-engine model which reflects and applies the Bank's risk strategy and underwriting criteria with an additional layer of human authority for approvals of loans that do not meet the automated criteria, both of which are monitored and audited by the Risk corporate function.

The Bank has also enhanced its arrears management strategy which combines system generated notices and follow-up with dedicated personnel, covering customer contact through mitigation and hardship processes to ultimate resolution and/or repossession. The management of vulnerable customers continues to be a key focus of the Bank. See "Suncorp-Metway Limited — Businesses" for more information.

Providing a differentiated banking experience. The Bank, through the Customer and Digital function, aims to understand its customers' needs better than its competitors so that it can provide its customers with the necessary tools to "*create a better today*" by offering products and services that meet their financial needs at every stage of their lives. The Bank is conscious that it must offer a different value proposition than its competitors in order to stay relevant to its customers.

In addition, the Bank has responded to changing customer behaviors by continuing to invest in its digital platform. This includes the delivery of the Suncorp App, online account origination for transaction accounts, enhanced digital self-service capabilities, digital wallets and modernizing its traditional branches through its new Stores.

Evolving the Bank's culture. The core objective of the Bank is to align its culture to the strategy by enabling its employees to create deeper, more connected relationships with customers. The aim is for the Bank's employees to develop a customer-centric mindset, a consistent service culture, the necessary people capabilities for operating the core banking platform and a workforce that is focused on winning the trust of customers. A framework of tools and resources has been established to assist the Bank's employees to better understand and respond to customer needs.

The Bank is also continuing to implement and ingrain a higher level of risk awareness across its workforce as part of its efforts to be in the best position possible to achieve Basel II advanced accreditation should the Bank ultimately decide to apply to APRA for advanced accreditation. Tools implemented as part of the Basel II advanced accreditation program are aimed to provide the Bank's employees with a deeper understanding of the underlying risk and profit drivers of the Bank's business, so they can direct their sales efforts in a more effective way.

The Bank continues to expand and evolve its flexible working model that employs new technologies to allow employees to work remotely more effectively. The model focuses on allowing employees additional flexibility and support to work from home during pre-agreed hours each week (including outside of traditional working hours) or to work permanently from home. The Bank believes that greater flexibility in working hours and location enhances the attractiveness of the Bank as an employer and supports the key strategic priority of the Bank to have an engaged and enabled workforce.

Enhancing risk and capital management. The Bank continues to apply what it believes is a disciplined approach to risk and capital management through operating as an advanced bank. Reforms to the risk-based capital adequacy framework set out in the Basel Committee's publication, "*Basel III: A global regulatory framework for more resilient banks and banking systems*" ("Basel III") and APRA's roll-out of 'Unquestionably Strong' benchmarks, communicated to the market since mid-calendar 2017, require further consideration as they are expected to reduce the gap between standardized and advanced bank capital requirements. During calendar 2018, APRA released further discussion papers on the implementation of the revised capital framework, which APRA has stated is likely to come into effect on January 1, 2022. Expected impacts cannot be confirmed before APRA releases the draft standards. See "Regulation and Supervision — APRA — Basel II Advanced Accreditation" for more information.

The Bank's significant investment in risk management capability, culture and technology has driven better understanding of the Bank's underlying risks and profit drivers and has improved decision making. Specifically, the Bank believes it has improved its ability to calculate risk/return dynamics, in order to price risk more effectively and manage capital more efficiently. The benefits of these capabilities are expected to continue to be realized through improved risk selection and business performance. This is designed to allow the Bank to continue to effectively compete in its target markets, particularly during times of heightened competition.

Business Strengths

A key differentiating opportunity for the Bank, particularly compared to other Australian regional banks, is to leverage the size and scale of the Group. This provides for comparatively lower-cost access to centralized corporate functions and additional revenue opportunities from the Group's large existing customer base. The Bank believes that its key competitive strengths include:

Efficiency and scale. The Bank uses the Group's infrastructure and services to more effectively manage its costs. Members of the Group provide integrated shared services across the Group, including all key Group corporate functions and other Group-wide services and business shared services. In addition, the increased level of investment in technology by the Group provides access to technology and resources that would be difficult to sustain at the Bank level on a standalone basis. See "Suncorp-Metway Limited — Relationship between the Group and the Bank" for further information.

Strong brand and customer relationships. The Bank believes that it benefits from the Group's portfolio of leading brands in the Australian financial services industry and seeks to leverage the customer relationships of the Group to grow its business in Australia. The Bank also believes that it benefits from the Group's operating model, which encourages Group customers to hold multiple Group products, including the Bank's products such as deposits, transaction accounts and loans, and seeks to deepen relationships and strengthen loyalty to its brands and to facilitate access to the Group's products and services. The Bank's strong brand and customer relationships are consistent with the Group's strategic priorities to deliver a brilliant customer experience, drive digital capabilities and product innovation and to build an engaged and enabled people. The Stores are facilitating connections across the wider Group's customers by offering solutions that meet their financial needs at every stage of their life.

Genuine alternative to the four major Australian banks. The Bank believes that one of its principal competitive advantages is that it delivers the product range, access options and capability of a major bank with the customer service focus of a regional bank. The Bank believes it has a comparable retail banking product offering to the four major Australian banks in the areas where it competes, including retail, commercial (SME) and agribusiness banking, and can benefit from the customer network of the Group.

Community driven culture. The Bank currently has approximately one million customers, capturing Australians' sense of belonging and community connection through its positioning as a genuine alternative to the four major Australian banks. The Bank aims to build deep and extensive connections with its customers through a common platform of systems, processes, tools and behaviors that enable its people to have consistent interactions and conversations with customers. The Bank's employees have accountability for local leadership so that they can be genuine contributors to local communities and understand businesses at a local level. The Bank's retail and business customer satisfaction regularly ranks ahead of the major banks in Australia. At June 30, 2019, personal banking customer satisfaction was 77% compared with an average of 64% for the four major Australian banks (Source: Consumer Atlas, June 30, 2019) and business banking customer satisfaction was 73% compared with an average of 68% for the four major Australian banks (Source: Consumer Atlas, June 2019).

Experienced Board and management team. The Group's Board, which is also the Bank's Board, is led by its Chairman, Ms. Christine McLoughlin, who has been a director of the Group since February 2015, and was elected by the Board to assume the role of Chairman of the Group's Board, following the retirement of the former Chairman, Dr. Zygmunt Switkowski, in September 2018. Members of the Board have significant experience across a range of financial services businesses. The Group Chief Executive Officer and Managing Director of the Bank and the Group Boards, Steve Johnston (formerly the Group Chief Financial Officer and Acting Chief Executive Officer of the

Group), has over 20 years of experience in senior corporate and government positions and has held a number of senior executive positions with the Group since 2006. The Bank's management team also has extensive experience in financial services. David Carter, the Chief Executive Officer, Banking and Wealth, has over 25 years of experience within the financial services sector across banking, wealth management and life insurance and has held senior executive positions within the Group for over ten years. Erin Strang was appointed as the Chief Financial Officer, Banking and Wealth on July 1, 2019, after previously holding the Bank Treasurer position since January 2017.

Recent Developments

CEO and Managing Director appointment

On May 27, 2019, the Group announced that Michael Cameron, CEO of the Group and Managing Director of the Bank and the Group Boards, would be stepping down from his positions with the Group and from both Boards. On May 27, 2019, Suncorp announced that Steve Johnston had been appointed as Acting Chief Executive Officer of the Group. On September 9, 2019, the Group announced that Steve Johnston was appointed as CEO of the Group and Managing Director of the Bank and the Group Boards, effective immediately.

Acting CFO appointment

On May 27, 2019, the Group announced that Jeremy Robson had been appointed as Acting Chief Financial Officer of the Group.

Organizational Changes

On August 7, 2019, Suncorp announced the establishment of a new Customer and Digital function. The new function aims to develop innovative, digital-first customer propositions, building on Suncorp's digital foundations. The Customer and Digital function has responsibility for Group customer and digital strategy; digital distribution; brand and marketing; and the Enterprise Portfolio Management Office.

Suncorp is also aligning its Australian contact centers, Stores and intermediary distribution teams with its Banking and Insurance operations.

As a result of these changes, CEO Customer Marketplace Pip Marlow decided to leave the business effective from the end of August 2019.

The new Customer and Digital function is led by the Chief Customer and Digital Officer, Lisa Harrison. Ms. Harrison has almost 15 years' experience at Suncorp having held various executive general management roles across product, pricing, digital sales, marketing and insurance operations. She was appointed to the Senior Leadership Team in 2017 as Chief Program Excellence Officer and has been responsible for the successful delivery of the Business Improvement Program.

AML-CTF Compliance

During fiscal 2019, the Bank became aware of an operational error at two of its Stores that resulted in a failure to meet the Bank's obligation under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* of Australia ("AML-CTF") to report cash transactions that meet a threshold of A$10,000 or more (each a "threshold transaction"). Under the AML-CTF, the Bank is required to submit a Threshold Transaction Report ("TTR") to AUSTRAC within 10 business days of each threshold transaction. Each failure to generate a TTR is a breach of the AML-CTF.

One of the impacted Stores operated from November 2012 to November 2018 and the other was opened in April 2018 and continues to operate. When the impacted Stores were established they were each allocated a previously decommissioned Store number ("Store Code") by the Bank. The Bank's investigations determined that the Store Codes allocated to the impacted Stores did not have TTR reporting flags enabled when they were allocated to the impacted Stores. As a result, TTRs for each threshold transaction at the impacted Stores were not automatically generated and provided to AUSTRAC. The operational error at the currently operating Store was remediated as of March 26, 2019. The Bank self-reported the initial findings to AUSTRAC on March 28, 2019, conducted an investigation of all Stores in operation over the last 10 years (including closed Stores), self-reported its further findings on April 2, 2019 and May 1, 2019. AUSTRAC did not request any meetings with Suncorp as a result of its self-reported breach. Suncorp received a request for further information from AUSTRAC on July 18, 2019, requesting further detail to be provided in relation to its TTR procedures, practices and controls and Suncorp provided this information to AUSTRAC in August 2019.

The Bank's initial breach report to AUSTRAC in March identified 321 unreported threshold transactions across both affected Stores. Following further investigations, the Bank confirmed to AUSTRAC on May 1, 2019, that there had been 286 unreported TTRs, as 35 transactions had been initially incorrectly identified by Suncorp as cash transactions and therefore there was no obligation to file TTRs, as they were not threshold transactions.

Suncorp also confirmed, as part of its further investigations, that the two Stores were the only Stores impacted by this issue; that the root cause of the breach was the failure to apply TTR reporting flags to these Stores when they were opened (because the Stores had been allocated previously decommissioned Store codes); that transaction monitoring rules and suspicious matter reporting processes were functional for the Stores during all times that the TTRs had not been reported; and that TTR monitoring activities had also been conducted during the period. All 286 unreported transactions were manually reported to AUSTRAC and the Bank confirmed to AUSTRAC that the remediation activities in relation to the breach had been completed in its correspondence May 1, 2019. Since the identification of this breach, the Bank has enhanced its TTR monitoring program and implemented controls in its Store opening procedures and IT systems in relation to TTR reporting flags.

The Bank will continue to work with AUSTRAC collaboratively in relation to this matter.

See also "Risk Factors—The Bank is exposed to the risk of receiving significant regulatory fines and sanctions, as well as reputational damage, contractual damage claims and other potential material claims and penalties, in the event of a failure to comply with financial crime legislation and regulations", and "Regulation and Supervision—AUSTRAC" regarding the AML-CTF and the risks related to the failure to comply with such legislation and regulations, including potential penalties.

RISK FACTORS

The Bank is subject to a variety of risks that arise out of its business. The Bank manages its ongoing business risks in accordance with its risk management policies and procedures, some of which are described in the extracts to the Bank's 2019 Annual Report *and in Notes 24 and 25 to the Bank's 2019 annual financial statements. The risk factors below supersede and replace the risk factors in the Bank's Disclosure Report (U.S. Version) for the Half Year ended December 31, 2018, dated April 5, 2019, which is posted on the U.S. Investors' Website.*

The Bank faces intense competition in all aspects of its business

The Australian banking industry is highly competitive and could become even more so. The Bank competes with both retail and commercial banks, other financial services firms, fin-techs and other non-traditional non-bank market entrants, such as businesses in adjacent industries. This includes specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate more efficiently or at lower cost than the Bank. The industry is dominated by the four major Australian banking groups (Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation), which have greater financial and other resources than the Bank and stronger market shares. As of June 30, 2019, the four major Australian banking groups held 77.69% of the total gross loans and advances in Australia (Source: APRA, Monthly Banking Statistics, June 2019).

Changes in the regulatory environment could potentially reduce the access to credit, which could further increase competition. The Bank expects to experience intensified competition as globalization of the financial services industry continues to create better capitalized and more geographically diverse financial institutions with increased access to capital. Competitors may be capable of offering a wider array of financial products and services at more competitive prices. As a result, the Bank could lose market share or be forced to reduce margins in order to compete effectively, particularly if industry participants engage in aggressive growth strategies or severe price discounting.

Demand for innovative, digital solutions is contributing to further competition from existing and new entrants to the banking industry, particularly in retail banking. Changes in the financial services sector in Australia have made it possible for non-banks to offer products and services traditionally provided by banks, such as payment, loans and credit cards. An example of this is peer-to-peer lending companies that offer loans directly to customers without an intermediary such as a bank. The use of digital channels by customers to conduct their banking continues to rise and emerging competitors are increasingly utilizing new technologies, business models and other technological advancements, such as blockchain technologies, and are seeking to disrupt existing business models in the financial services sector. New technologies, business models and other technological advancements may lead to changes in customer behavior and the competitive environment, including through the introduction of alternative payment systems or customer data regimes, such as Open Banking, which will require banks to provide customers data to accredited third parties (at the direction of the customer), that challenge, and could potentially disrupt, traditional banking services. Consumers and businesses may choose to transact using, or to invest in, new forms of currency (such as cryptocurrencies), but the Bank may choose not to use such forms of currency or provide financial services to companies using such currencies. Existing companies from outside the traditional financial services sector may seek to directly compete with the Bank by offering products and services traditionally provided by banks, including by obtaining banking licenses and/or by partnering with existing providers. If the Bank is unable to compete effectively in its businesses and markets, its market share and margins may decline.

The current low-interest-rate environment has led to increased competition on pricing for new customers to drive growth. On July 2, 2019, the RBA cut the cash rate by 25 basis points for the second consecutive month to the Australian historic low rate of 1.00%. Prior to this cut, the RBA had kept the cash rate unchanged at 1.5% since August 2016 and current market consensus is that the RBA will likely cut interest rates again before the end of calendar 2019. During fiscal 2019, the Bank Bill Swap Rate ("BBSW"), increased significantly before beginning to ease in February 2019; the decline intensified in the months that followed, as global central banks (including the RBA) pivoted to a more dovish outlook and the market began to price cash rate reductions into the curve. BBSW is now trading in line with the long term averages of other cash products (Overnight Index Swaps). Increased competition in an environment characterized by record-low interest rates in Australia may create pressure that results in lower net interest margins and profit.

Increased competition for deposits could also increase the Bank's cost of funding and require it to access other types of funding or reduce lending. The Bank relies on customer deposits and, to a lesser extent, commercial (SME) deposits to fund a significant portion of its assets on its balance sheet. The Bank competes principally with banks and other financial services firms for such deposits. Increased competition for deposits could increase the Group's cost of funding. To the extent that the Bank is not able to successfully compete for deposits, it could be forced to rely more heavily on alternative funding sources, which may be less stable or more expensive, or to reduce its lending. This could adversely affect the Bank's business, operations and financial condition.

Changes in macroprudential policies may also lead to heightened competition in targeted segments of the market. Proposed revisions to the capital framework for residential mortgages may incentivize acquisition and retention of perceived lower risk credit, namely principal and interest owner-occupied lending.

All Australian ADIs are expected to meet APRA's new 'Unquestionably Strong' benchmarks by January 1, 2020, with the new Basel III prudential standard reforms proposed to be effective in Australia from January 1, 2022. The proposed Basel III changes to the Standardised approach are not yet finalized and APRA has not released details on the proposed changes to the IRB approach, other than draft detail for residential mortgages. The ultimate impact of this regulatory change on the Bank will not be known until APRA has finalized its regulatory position. If such developments are detrimental to the Bank's competitive position, the Bank's businesses, results of operations and prospects could be adversely affected.

The new standards, as well as APRA's application of the 'Unquestionably Strong' capital requirements, may impact the benefits of operating under a Basel II Advanced basis and will require further consideration before proceeding with accreditation. Thus there can be no assurance of the timing of a submission or that the Bank will ultimately decide to seek advanced accreditation. See "Regulation and Supervision — APRA — Basel II Advanced Accreditation" and "Regulation and Supervision — APRA's prudential supervision — Capital adequacy — Unquestionably Strong" for more information. Delays in the Bank achieving Basel II advanced accreditation may adversely affect the Bank's ability to manage capital more efficiently. In addition, if the Bank does apply for and achieve Basel II advanced accreditation, there is a risk that such enhanced risk and capital management capabilities may not be as effective as anticipated or that such advanced accreditation may result in additional reporting obligations and/or costs.

The Bank is also dependent on its ability to offer products and services that satisfy evolving customer preferences, habits and sentiment. Increasing competition for customers could also potentially lead to a compression in the Bank's net interest margins or increased advertising and related expenses to attract and retain customers. If the Bank is not successful in developing or introducing new products and services that are suitable for, or responsive to, changes in customer preferences, habits and sentiment, as well as keeping pace with technological developments in customer service, it may lose customers to its competitors, which could adversely affect the Bank's businesses, results of operations and prospects.

The Bank's businesses are highly regulated and failure to comply with existing laws and regulations could adversely affect the Bank

The Bank is subject to extensive laws and regulations in the various Australian states and territories in which it operates and is supervised by a number of different regulatory authorities which have broad administrative power over its businesses. The Bank's supervisory and regulatory authorities include APRA, the RBA, ASIC, the ASX, AUSTRAC, the ACCC and the ATO. The laws and regulations to which the Bank is subject, relate to, among other things, capital adequacy, funding, liquidity, prudential regulation, solvency, derivatives, loss provisioning, accounting and reporting requirements, taxation, remuneration, privacy, data protection, data access, financial advice, conduct, mortgage pricing, competition, consumer credit and consumer protection (including the design and distribution of financial products), anti-bribery and corruption, "know your customer" requirements, anti-money laundering and counter-terrorism financing, economic and trade sanctions and executive accountability. In particular, the Bank is subject to prudential supervision by APRA and is required to, among other things, comply with prescribed capital requirements.

The Bank's failure, or suspected failure, to comply with applicable laws and regulations (including those prescribed by the regulatory authorities having supervision over the Bank) or industry codes of practice, could result in one or more of the Bank's regulators commencing surveillance on or an investigation of the Bank, which may, depending on the circumstances, result in such regulators taking administrative or enforcement action. Such actions may include suspensions, restrictions on or loss of operating licenses, fines and penalties or limitations on its ability to do business, and the Bank may suffer material financial loss or loss of reputation. In addition, the failure or alleged failure of the Bank's competitors to comply with applicable laws and regulations could lead to increased regulatory scrutiny across the financial services sector. In many cases, the Bank's regulators have broad administrative and enforcement powers. For example, under the Australian Banking Act, APRA can, in certain circumstances, investigate the Bank's affairs and/or issue a direction to the Bank (such as a direction to comply with a prudential or supervisory requirement, to conduct an audit, to remove a director, executive officer or employee or not to undertake transactions), to disqualify an individual from holding an accountable person role in an APRA-regulated entity or to require the Bank to hold additional capital. The powers exercisable and penalties that can be imposed by the Bank's regulators may also be expanded in the future. For example, the Australian Government has released an exposure draft of the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Power) Bill 2018* of Australia, which proposes to introduce design and distribution obligations in relation to financial products and provide ASIC with a product intervention power, and ASIC is currently consulting with industry on its application. The Australian Government has also publicly endorsed a proposal by the ASIC Enforcement Review Taskforce to expand ASIC's powers to ban individuals working in the financial services sector, with an exposure draft of legislation released in September 2018. In addition, the Australian Treasury released the *Treasury Laws Amendment (ASIC Enforcement) Bill 2018* of Australia, which proposes to strengthen penalties for corporate and financial sector misconduct. See "Regulation and Supervision" for more information.

Changes may also occur in the oversight approach of the Bank's regulators, particularly following the investigation of the Royal Commission and the release of the Royal Commission's Final Report on February 4, 2019 and, in some cases, reviews of the regulators' own capability and enforcement approaches, which could result in one or more of the Bank's regulators exercising their enforcement powers rather than adopting a more consultative approach. There have also been recently announced requirements for regulators to embed staff within the institutions they supervise, with the Australian Government announcing an increase in ASIC's funding in order to implement this type of supervisory approach. In recent years, there have been significant increases in the nature and scale of regulatory investigations, enforcement actions and the quantum of fines issued by global regulators. The nature of regulatory activity can be wide-ranging and may result in litigation, fines, penalties, infringement notices, reputational damage, revocation, suspension or variation of conditions of regulatory licenses (including potentially requiring the Bank to change or adjust its business model) or other enforcement or administrative action or agreements (such as enforceable undertakings), any of which could adversely affect the Bank's reputation, businesses, results of operations and prospects.

The Bank could be adversely affected by changes in laws, regulations and regulatory policies or by increased compliance requirements as a result of such changes

The Bank continues to face increased supervision and regulation in Australia, particularly in the areas of consumer and commercial lending (including on pricing practices and strategies and responsible lending obligations), recovery and resolution planning, stress testing, debt securities, breach reporting, product suitability, sales practices, compliance with unfair contract terms legislation, funding, liquidity, LIBOR transition planning, capital adequacy, tax, anti-money laundering and counter-terrorism financing, conduct, consumer protection (including the design and distribution of financial products), remuneration, competition (including through the introduction of changes to the *Competition and Consumer Act 2010* of Australia following recommendations by the Competition Policy Review), executive accountability, privacy (including mandatory data breach notification obligations), data protection (including through the introduction of the EU General Data Protection Regulation), information security, data accuracy and data access (including data collection by regulators on a recurrent basis), prudential regulation, anti-bribery and corruption, Suspicious Matter Reporting, Threshold Transaction Reporting, and economic and trade sanctions. Changes in applicable laws, regulations, regulatory policies, taxation laws, accounting standards and industry codes, including changes in their interpretation or implementation, may adversely affect how the Bank conducts its business and the profitability and size of the Bank's business activities. The products and services the Bank offers could expose the Bank to regulator intervention, additional costs and liabilities or fines and penalties. In addition, there is operational and compliance risk associated with the implementation of any new applicable laws and regulations that apply to the Bank and the introduction of new laws or regulations could increase the Bank's compliance costs. The nature, timing and impact of future regulatory changes are also not predictable and are beyond the Bank's control.

The Bank's business, reputation, prospects, financial performance and financial condition could all be affected by changes to law and regulation, changes to policies and changes in the supervisory activities of the Bank's regulators.

Regulatory change may impact the Bank's operations by requiring the Bank to maintain higher levels of capital, higher quality capital, increased levels and quality of liquidity or longer weighted average term of liabilities. Any further changes in regulation, including changes that increase the requirements of regulatory capital, could have an adverse impact on the Bank's results of operations and the ability of the Bank to maintain or grow its current businesses.

Regulatory change may, in turn, restrict the business that the Bank or its competitors conduct, such as product and service offerings (including by imposing pricing constraints or regulatory limits on certain types of lending and on lending to certain customer segments), the ability of other providers to offer competing financial services and products or may require the Bank or its competitors to amend their corporate structure. For example, the Bank's business model may change with the implementation of Open Banking. See "Regulation and Supervision" for more information. In such circumstances the regulatory change could restrict the Bank's flexibility to conduct its business, require it to incur substantial costs and/or impact the profitability of one or more of the Bank's business lines. Any such costs or restrictions could adversely affect the Bank's businesses, results of operations and prospects. An example of such cost imposed by regulatory change is the proposed revision to the regulatory capital framework noted below.

Regulation is also becoming increasingly extensive and complex, as regulators across multiple jurisdictions seek to adopt a coordinated approach, or certain jurisdictions seek to expand the territorial reach of their regulation. See "Regulation and Supervision" for more information on regulatory developments as a result of the Basel Committee on Banking Supervision (the "Basel Committee") announcement in December 2017 of a revised global regulatory capital framework known as Basel III, the publication of the final Basel III reforms by the Basel Committee on December 7, 2017, and the regulatory regimes, inquiries, commissions and levies to which the Bank is subject and further changes that are expected over the short-to-medium term.

APRA's announcements clarifying its expectations for banks to hold 'Unquestionably Strong' levels of capital, and the discussion papers released in 2018 on the implementation of the Basel III revised capital framework, which APRA has stated is likely to come into effect on January 1, 2022, will likely lead to changes in regulatory capital levels for all ADIs in Australia. The impact of this regulatory change on the Bank will not be known until APRA has finalized its regulatory position. The Bank's decision to apply for Basel II advanced accreditation of its internal models remains uncertain. The decision to apply for advanced accreditation will only be made once all relevant regulatory developments have been considered and APRA indicates a willingness to accept an application. Because of the uncertainty surrounding the impacts of these regulatory changes, there can be no assurance that the Bank will ultimately decide to seek advanced accreditation, or that it will be successful in obtaining advanced accreditation in a timely manner.

It is possible that governments in jurisdictions in which the Bank conducts business or obtains funding might revise existing regulatory policies that apply to, or impact, the Bank's business. Such changes may be driven by policy, prudential and/or political factors or for reasons relating to national interest and/or systemic stability.

The Bank may be adversely affected by increased governmental and regulatory scrutiny or negative publicity

Scrutiny from governments, regulators, legislative bodies and law enforcement agencies, and from the general public, with respect to matters relating to business and sales practices, compliance monitoring, taxation, capital and liquidity management, conduct, compensation, competition, credit and other matters has increased dramatically in the past several years. The global financial crisis and its resulting political and public sentiment regarding financial institutions caused adverse press coverage for financial institutions, as well as adverse statements or charges by regulators or other government officials, and in some cases, increased regulatory scrutiny and investigations. Since then, there has been a stronger focus on the societal impacts of the financial sector globally, and the Royal Commission has, more recently, reinforced this shift in Australia, which is likely to lead to a sustained period of focus on the financial sector in Australia.

Significant regulatory change and public scrutiny of the global financial services industry by conduct-based regulators and government is driving increased standards and customer expectations. The Australian Government, other regulators and parliamentary bodies have undertaken a number of separate reviews and inquiries (such as the Royal Commission, the House of Representatives Standing Committee on Economics' ongoing inquiries into Australia's four major banks and industry implementation of the recommendations of the Royal Commission, the Senate Economics References Committee's inquiry into consumer protection and transparency in the banking, insurance and financial sectors, the Australian Productivity Commission's inquiry into competition in Australia's financial system, Australian Government reviews into Open Banking, the ACCC's inquiries into residential mortgage pricing and foreign currency conversion services). See "Regulation and Supervision — Other Australian regulatory activity" for further discussion of the reviews and inquiries into the Australian financial services industry currently being undertaken.

Interpretation of, and guidance in relation to, responsible lending obligations under the Australian *National Consumer Credit Protection Act 2009* has evolved in recent years and have been the subject of recent focus of the Royal Commission into 'Misconduct in the Banking, Superannuation and Financial Services Industry' (the "Royal Commission"). Changes to these regulations or their interpretation, or the potential for increased regulatory and public scrutiny in relation to these obligations may necessitate the changing of processes or procedures in relation to consumer lending and, may have an adverse impact on the Bank's reputation, results of operations and financial condition. See "Regulation and Supervision — Other Australian regulatory activity — Royal Commission into misconduct in the banking, superannuation and financial services industry" for more information on the Royal Commission. These reviews and commissions of inquiry are ongoing and could result in adverse findings against the Bank and/or the Bank's competitors or lead to substantial regulatory change or investigations, which could have a material impact on the Bank's business, reputation, prospects, financial performance or financial condition.

Responding to regulatory scrutiny and investigations, regardless of the ultimate outcome, is time-consuming, expensive, can adversely affect investor confidence and can divert the time and effort of staff (including senior management) from the Bank's business. Investigations, penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on the Bank's reputation and on the morale and performance of the Bank's employees, which could adversely affect the Bank's business and results of operations.

Changes may also occur in the oversight approach of regulators, as regulators seek to revise their application of existing regulatory policies applicable to the Bank's business (including by instituting macroprudential limits on lending). For example, APRA has previously introduced benchmarks applicable to Australian financial institutions to control investor lending in the home loan market, limiting investor lending growth and capping new interest-only lending and requiring that ADIs report both benchmarks to APRA monthly. While these limits have now been removed by APRA, they caused increased price competition across the Bank's traditional owner-occupied lending segment as more of the Bank's competitors shifted into this market segment. On July 31, 2018, ASIC approved a new Banking Code of Practice (the "Code") of the Australian Banking Association (the "ABA"). The Code provides significant new and enhanced protections for consumers, and the Bank (along with all ABA member banks) has subscribed to the Code and undertook a comprehensive review to ensure compliance with the Code as of the commencement date of July 1, 2019. Further actions by the Bank's regulators may include changing the required levels of liquidity and capital adequacy, increasing tax burdens generally and on financial transactions, limiting the types of financial services and products that can be offered by the Bank, and/or increasing the ability of competitors to offer competing financial services and products, as well as changes to prudential regulatory requirements. Enhanced regulation and increased regulatory oversight could substantially affect the Bank's business or operations, the products and services the Bank offers and the value of the Bank's assets, or have unintended consequences or impacts across the Bank's business or operations.

The Royal Commission may lead to regulatory enforcement activity, litigation and changes in laws, regulations or regulatory policy, as well as potentially result in reputational damage to the Bank, all of which may have an adverse effect on its business and prospects

The Royal Commission investigated (among other things) whether any conduct of banking, superannuation and financial services entities might have amounted to misconduct and whether any conduct, practices, behavior or business activities by those entities fell below community standards and expectations. The final report of the Royal Commission was released publicly on February 4, 2019 (the "Final Report") and included 76 recommendations to the Australian Government relating to law reform, self-regulatory standards and the operations of ASIC and APRA. The recommendations of the Royal Commission may lead to regulators commencing investigations and/or enforcement action against the

Group, the Bank or the Bank's competitors. The Bank may also be exposed to an increased risk of litigation involving third parties (including class action proceedings) in connection with matters raised publicly at the Royal Commission. The Final Report recommended a number of changes to Australia's legal and regulatory framework, which, depending on how the recommendations are implemented by the Australian Government and its regulatory agencies (in particular, APRA and ASIC), could result in potentially significant additional costs and may lead to further exposures of the Group and/or the Bank, including those related to further regulator activity and/or potential customer exposures, such as class actions, individual claims or customer remediation or compensation activities. The recommendations of the Royal Commission may also lead to changes in the competitive environment in which the Group and the Bank operates, affecting the Group and/or the Bank. The outcomes and total costs associated with these possible exposures and changes remain uncertain.

The Final Report also included key recommendations that may impact the Bank (and the Group), including recommendations in respect of culture, remuneration, compliance and accountability; proposed changes to mortgage broker remuneration and obligations such as the introduction of a 'best interest duty' for brokers; the introduction of 'enforceable code provisions' within industry codes to which the Bank subscribes, making non-compliance with such provisions a breach of the law; a further additional executive accountability under the relevant law for end-to-end management of products; a stronger, blanket prohibition on the 'hawking' (i.e. sale) of insurance and superannuation products via telephone sales; and various changes to agricultural lending practices. For further details on the recommendations that could impact the Bank and the expected timing for the implementation of the recommendations, see "Regulation and Supervision — Other Australian regulatory activity — Royal Commission into misconduct in the banking, superannuation and financial services industry".

The full impact on the Bank of the Royal Commission's recommendations will depend on how and when they are implemented, and they may adversely affect the Bank's business, prospects, financial performance, reputation and financial condition.

The Bank's business is substantially dependent on the Australian economy, including changes in political and general business and economic conditions and environmental and social events

As the Bank conducts almost all of its business in Australia, its performance is influenced primarily by Australian political and economic conditions, particularly in regard to the level and the cyclical nature of residential and business lending. These factors are in turn impacted by both domestic and international economic conditions, natural disasters and political events. Levels of borrowing are heavily dependent on customer confidence and sentiment, the state of the Australian economy and general economic outlook, the demand for, and supply of, capital and prevailing interest and inflation rates at the time.

A decline in the value of residential property has been observed across a number of areas of Australia (most notably in the capital cities of Sydney and Melbourne). A significant decrease in Australian housing valuations could adversely impact the Bank's home lending activities because borrowers with loans in excess of their property value show a higher propensity to default. In the event of defaults the Bank's security may be eroded, causing the Bank to incur higher credit losses. The demand for the Bank's home lending products may also decline due to adverse changes in tax legislation (such as changes to tax rates, concessions or deductions), regulatory requirements or other buyer concerns about decreases in values in the housing market.

A significant decrease in demand in the Australian housing markets may adversely impact property valuations. Property valuations may fall due to other factors as well. The impact of falling property values, for example, as a result of oversupply in certain markets, could cause higher credit losses, particularly if falling property values were experienced in Queensland where the majority (by value) of the Bank's residential loans are concentrated. Similarly, a protracted period of subdued small business confidence and higher levels of business failure could result in higher credit losses in the Bank's commercial (SME) portfolio, which is predominantly comprised of loans to small businesses. In addition, the Bank provides a substantial amount of lending to agribusinesses, particularly in Queensland and New South Wales. A significant decline in the prices of agricultural commodities or in the agriculture property sector could adversely impact the Bank's agribusiness lending activities and cause higher credit losses.

There is a risk that a shock to or a downturn in one of the major global economies could result in currency and interest rate fluctuations and operational disruptions that may negatively impact Australia and the Bank. In the event of an economic shock or downturn in an economy with interest rates near zero (or below), central banks may not be able to lower interest rates to effectively stimulate the economy. This may impact the ability of those economies to manage such a shock or downturn and could ultimately result in broader adverse impacts on the global economy or certain regions. This could, in turn, impact the Bank, particularly if the Australian market is adversely affected.

Furthermore, the occurrence of, and any prolonged effects from, social, environmental and weather related events, such as pandemic, civil unrest, terrorism, natural disasters and climate change, including, but not limited to, droughts (in particular, in Queensland and New South Wales where a significant portion of the Bank's agribusiness loan portfolio is located), bushfires, floods (such as the flooding across much of Northern Queensland during fiscal 2019), earthquakes and cyclones, may also cause an economic downturn in the areas directly or indirectly affected by such events. This could adversely affect the ability of borrowers to make payments on loans. Impairment loss on loans made to customers in environmental- and weather-affected areas, such as those affected by drought conditions, may continue to increase, particularly if such conditions do not stabilize or improve. In addition, localized hardship events such as these may temporarily or permanently interrupt or restrict the provision of some local or regional services, including banking, and could adversely affect the Bank's business and the results of its operations. See also "— The Bank could suffer losses due to catastrophic events" below.

The Bank's businesses are also impacted by Australian and global economic and financial market developments, natural disasters and political events, which are outside of the Bank's control

Monetary Policy

Monetary policy settings impact financial conditions, confidence and the allocation of labor and capital within an economy. Central banks (including, but not limited to, the Reserve Bank of Australia, the U.S. Federal Reserve and the European Central Bank ("ECB")) use monetary policy to influence activity within their economy to achieve their legislated mandates, namely, currency and price stability, full employment and the economic prosperity and the welfare of people. In some jurisdictions, other policies such as competitive currency devaluation is also used to influence general business conditions and the demand for credit. There is a risk that one or more Central banks may make a policy mis-step as they finesse monetary settings, which could impact economic confidence and growth prospects across the globe and ultimately adversely affect the Bank's business, financial condition, liquidity, results of operations and prospects.

A renewed bout of monetary easing in Australia and countries in other significant markets has led to further contraction in benchmark rates across the globe. This is incentivizing investors to allocate capital lower in the capital structure to secure higher yields. The inherent risk incurred from allocating capital to these products is higher and a period of heightened economic uncertainty or asset price volatility could derail confidence and impact consumer demand which could adversely affect the Bank's business, financial condition, liquidity, results of operations and prospects.

The low interest rate environment across the globe has encouraged debt accumulation since the GFC. This debt has been funded across a range of jurisdictions as debt capital markets have remained open and operating efficiently. There is a risk that debtors may encounter less favorable terms and diminished access to capital when they are required to refinance maturities. If a period of economic volatility occurred and debt capital markets dislocated, this could impact the Bank's available funding sources and could adversely affect the Bank's business, financial condition, liquidity, results of operations and prospects.

The evolving monetary landscape also has implications for capital flows. Interest rate differentials are a key determinant in where capital flows. Therefore, it can become relatively more difficult for debtors to refinance if investors are less attracted to investing in a given jurisdiction due to narrowing interest rate differentials. This is more pertinent for countries that run with current account deficits (such as Australia) and rely on foreign capital. As monetary policy settings are adjusted across the globe, this could have an adverse impact on available funding sources and may negatively impact the Bank's business, financial condition, liquidity, results of operations and prospects.

Furthermore, the Bank faces the risk of financial contagion and its results of operations could be adversely impacted if tighter financial conditions across the globe lead to a deterioration in borrowers' capacity to repay existing debt. If financial institutions default on their debt obligations, credit may become more expensive and difficult to arrange and global financial markets may generally cease to operate efficiently, which could have a negative impact on the Bank's business, operations and prospects.

Geopolitical

Geopolitical uncertainty has been elevated in recent years and continues to be a potential source of financial market volatility. The threat or occurrence of conflicts around the world, ongoing civil unrest and related refugee flows, the threat of terrorist activities and the adoption of protectionist policies across the globe are all potential risks to geopolitical stability. Each of these risks could adversely affect global financial markets and general economic and business conditions. In turn, this may adversely affect the Bank's business, operations and financial condition.

Since his inauguration in January 2017, President Donald Trump has embarked on an agenda that differs significantly, in some respects, from his predecessors. The implementation of President Trump's tax policies, including the concessional rates for repatriating funds from abroad, created capital flow implications. Furthermore, President Trump's immigration and trade policies have heightened geopolitical concerns and caused bouts of financial market volatility. To date, the United States has primarily focused on the implementation and threat of additional import tariffs and other protectionist policies against China, which have been met by similar threats of tariffs from China on their bilateral trading relationship. In addition to the volatility and general market uncertainty created by the threat of tariffs on Chinese imports into the United States, there is a risk that such policies may be extended to other U.S. trading partners, which may adversely impact the demand for Australian exports or result in global growth slowing more generally. This could adversely affect the Bank's business, financial condition, liquidity, results of operations and prospects. Furthermore, U.S. and Chinese foreign policy have contributed to higher geopolitical risk, particularly with respect to the ongoing uncertainty around, around other things, the Korean Peninsula, South China Sea and Iran.

The ongoing Brexit negotiations between the United Kingdom and European Union and the recent election of Prime Minister Boris Johnson, continues to be a source of consternation for businesses and investors alike. The risk of a "no deal" Brexit or early general election is maintaining a level of uncertainty and volatility in global financial markets. A disorderly departure of the United Kingdom from the European Union, or the unexpected consequences of any departure, could have significant and immediate destabilizing effects on cross-border financial services activities and may adversely impact the Australian economy and the economies of Australia's trading partners, as well as the Bank's ability to raise medium or long-term funding in certain international capital markets, all of which could adversely affect the Bank's business, financial condition, liquidity, results of operations and prospects.

Chinese Reform

In China, financial and economic developments remain potential sources of global volatility, as their leadership attempts to navigate a delicate transition, reducing their reliance on export based growth while simultaneously urbanizing a larger proportion of the population to increase domestic wealth and income and drive more sustainable economic consumption-based growth. This task has been complicated further by the ongoing trade frictions with the United States. The transition has resulted in slower economic growth and a slowdown in fixed asset investment, which could flow through both financial and trade channels and impact the economies of other countries.

China is Australia's largest trading partner and a significant driver of commodity demand and prices in the Australian resources sector and, more broadly, the global economy. Raw commodity exports to China are the largest export earner for Australia, however, service-based exports from Australia (such as education) are becoming increasingly important as China's ongoing urbanization creates new sources of demand. A sustained downturn in China's economic growth and/or a decrease in demand for raw materials could adversely affect the Australian economy and, as a result, the Bank's business and results of operations.

Australian Household Debt and Property Prices

The Australian economy is highly leveraged to the residential and commercial property markets. Tighter lending standards or benign demand which leads to slower credit growth could lead to further declines in property prices and this could ignite a negative wealth effect, weighing on domestic demand and economic growth. Furthermore, slowing credit growth could intensify competition between lenders, negatively impacting net interest margins across the Australian banking sector. These factors could reduce the demand for the Bank's products and services and adversely impact the Bank's business, operations and prospects.

The rise in house prices, through April 2018, contributed to rising household debt in Australia as borrowers originated larger mortgages to secure properties in a rising market. This led to household debt in Australia increasing to all-time highs. As debt loads have progressively increased and residential property prices have declined (particularly in Sydney and Melbourne), equity positions have weakened, wage growth has remained benign and the savings rate has continued to trend lower. This is an unsustainable development which presents potential risks around loan serviceability for some households and headwinds for domestic consumption and economic growth. A deterioration in household balance sheets and/or a weaker growth outlook could adversely impact the Australian economy and, as a result, the Bank's business, operations and prospects.

Regulatory and Environmental Factors

Other factors, including but not limited to domestic and global regulatory reform and fiscal settings, severe weather events or environmental disasters and potential cyber-attacks, could negatively impact economic conditions and consumer sentiment, which in turn could adversely impact the Australian economy and the Bank's business, operations and financial condition.

Adverse credit and capital market conditions or depositor preferences may significantly affect the Bank's ability to meet funding and liquidity needs and may increase its cost of funding

The Bank relies on deposits, credit and capital markets – both domestic and offshore – to meet its funding obligations, to maintain and grow its business and as a source of liquidity. The Bank's liquidity and costs of obtaining funding are related to credit and capital market conditions. This includes but is not limited to the volatility of short-term and long-term interest rates, inflation, monetary conditions, volatility in commodities prices, fluctuations in both debt and equity capital markets, changes in foreign exchange rates, liquidity in the global financial markets, consumer confidence, the Bank's credit ratings (which are influenced by Australia's sovereign credit rating) and the relative strength of the Australian economy.

Renewed volatility or worsening general economic conditions, including in overseas markets, could adversely impact any or all of these factors. Should conditions remain uncertain for a prolonged period, or deteriorate, the Bank's funding costs may increase, limiting the Bank's ability to refinance maturing liabilities in a timely manner. This could adversely affect the Bank's ability to fund and grow its business. If the Bank is unable to pass increased funding costs on to its customers, its net interest margins will narrow, which will adversely impact the Bank's results of operations and the ability of the Bank to maintain or grow its current business operations. As such, the Bank may decide to issue securities with shorter tenors than it prefers, or pay less attractive interest rates, thereby increasing its interest expense, decreasing its profitability and significantly reducing its financial flexibility.

Periods of financial market volatility have resulted from recent geopolitical developments, tightening and then easing of financial conditions, regulatory reform, slowing global growth and risks of credit rating downgrades of both banks and sovereign states alike. Such disruptions, uncertainty and volatility in domestic or global financial markets may increase funding costs, limiting the Bank's access to funding and reducing its financial flexibility.

Domestically, a shift in investment preferences could result in deposit withdrawals by customers which may increase the Bank's reliance on offshore wholesale markets and other, potentially less stable, forms of funding. The risk may be increased by heightened competition for customer deposits as banks have shifted their funding profiles to accommodate the NSFR requirements. If market conditions deteriorate due to economic, financial, political or other reasons, or if the Bank continues to operate in a sustained low interest rate environment, there may also be a loss of confidence in, or demand for, bank deposits and the Bank could experience unexpected deposit withdrawals. In this situation, the Bank's funding costs may be adversely affected and its liquidity, funding and lending activities may be constrained.

There is no assurance that the Bank will be able to obtain adequate funding or do so at acceptable prices or on acceptable terms. If the Bank's current sources of funding prove to be insufficient, it may be forced to seek alternative financing and/or reduce the level of its lending. The availability of alternative financing, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions, the availability of credit, the Bank's credit ratings and credit capacity. The cost of these alternatives may be more expensive, and the terms of such alternatives may be less favorable, which could adversely affect the Bank's results of operations, liquidity, capital resources and financial condition.

If the Bank is unable to source appropriate funding on acceptable terms, it may also be forced to reduce its lending or sell liquid securities. There is no assurance that the Bank will be able to obtain favorable prices on some or all of the securities that it may offer for sale in an acceptable timeframe. Such actions may adversely impact the Bank's business, results of operations, liquidity, capital resources and financial condition.

The Bank is subject to increased capital adequacy and liquidity requirements and adverse financial market conditions or Bank-specific circumstances may significantly affect the Bank's ability to maintain adequate levels of liquidity and capital

The Bank must satisfy a variety of substantial capital and liquidity requirements, which are subject to qualitative and quantitative review and assessment by its regulators. The Bank is required by its primary regulator, APRA, to maintain adequate regulatory capital. Regulatory capital and liquidity requirements limit how the Bank uses its capital and can restrict its ability to pay dividends or to make stock repurchases. Under current regulatory requirements, risk-weighted assets and expected loan losses increase as credit risk inherent in the loan portfolio increases. These additional regulatory capital requirements compound any reduction in capital resulting from lower profits in times of stress. As a result, greater volatility in capital ratios may arise and may require the Bank to raise additional capital. There can be no certainty that any additional capital required would be available or could be raised on reasonable terms.

The Bank's liquidity and funding policies are designed to allow it to meet its contractual and contingent payment obligations as and when they fall due. The Bank does this by seeking to ensure it is able to borrow funds on an unsecured basis, has sufficient assets to borrow against on a secured basis, and has sufficient high quality liquid assets ("HQLA") to sell to raise immediate funds without adversely affecting the Bank's net asset value. The Bank monitors and manages its liquidity and funding profile through its approved liquidity and funding framework, and in times of stress, may use its contingency funding plan. Crises simulation and stress testing of liquidity and funding is conducted on a regular basis via the Bank's stress testing framework. See "Regulation and Supervision — APRA — Crisis management" for an overview of the Bank's liquidity and funding risk management framework.

If the Bank is unable to maintain required capital ratios and adequate levels of liquid assets, which may be due to a number of factors including significant unforeseen changes in interest rates, ratings downgrades, higher than anticipated losses on investments, lower earnings, increased asset growth, unforeseen contingent liability payments, significant counterparty defaults, changes in the value of the Australian dollar, changes in business strategy (including acquisitions, divestments, investments and changes in capital intensive businesses), disruptions in the financial markets generally or if financial markets are unavailable for an extended period of time, the Bank's operations and financial condition could be adversely affected.

Failure to maintain credit ratings could adversely affect the Bank's cost of funds, liquidity, competitive position and access to capital markets

The Bank's credit ratings can affect the cost and availability of its funding from capital markets and other funding sources. Credit ratings may be important to customers or counterparties when evaluating the Bank's products and services. It is therefore important for the Bank to maintain quality credit ratings. See "Management's Discussion and Analysis of Results of Operations and Financial Condition — Credit Ratings" for more information on the credit rating for the Bank's short-term and long-term senior unsecured debt.

The credit ratings assigned to the Bank by rating agencies are based on an evaluation of a number of factors, including its financial strength, risk management controls, support from the Group and structural considerations regarding the Australian financial system and the credit rating of the Australian Government. Credit ratings may be withdrawn, qualified, revised or suspended by credit rating agencies at any time. A credit rating downgrade could be driven by the occurrence of one or more of the other risks identified in this section or by other events, including changes to the methodologies used by the rating agencies to determine ratings as a result of legal or regulatory changes, market developments or for any other reason. Credit ratings are not a recommendation by the relevant rating agency to invest in securities offered by the Bank.

On June 19, 2017, Moody's revised the Commonwealth of Australia's macro profile from "very strong" to "strong". This change resulted in a downgrade in Moody's long-term ratings of Australia's four largest banks to Aa3 from Aa2 and their baseline credit assessments were downgraded to a2 from a1. The Bank's credit ratings were reaffirmed and its outlook remained stable. However, the Bank's credit ratings could be revised in the future in response to a change in the credit rating of the Commonwealth of Australia. In addition, the ratings of individual securities issued by the Bank (and other banks globally) could be impacted from time to time by changes in the regulatory requirements for those instruments, default rates associated with secured assets underlying those securities, as well as the ratings methodologies used by rating agencies.

A downgrade to the Bank's credit ratings by any rating agency could adversely affect its cost of funds and related margins, access to credit markets, collateral requirements, liquidity, competitive position and the willingness of counterparties to transact with the Bank, which may adversely affect the Bank's business, operations, financial condition and reputation. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, whether the Bank's ratings differ among agencies (namely, split ratings) and whether any ratings changes also impact the Bank's peers or the sector.

A systemic shock in relation to the Australian or other financial systems could have adverse consequences for the Bank or its customers or counterparties that would be difficult to predict and respond to

There is a risk that a major systemic shock could occur that causes an adverse impact on the Australian or other financial systems. As outlined above, the financial services industry and capital markets have been, and may continue to be, affected by market volatility, global economic conditions, geopolitical instability (such as threats of or actual conflict occurring around the world) and political developments (such as protectionism, populism and Brexit).

Any such market and economic disruptions could have an adverse effect on financial institutions, including the Bank, because consumer and business spending may decrease, unemployment may rise, housing prices may fall and demand for the products and services the Bank provides may decline, thereby reducing its earnings. These conditions may also affect the ability of the Bank's borrowers to repay their loans or counterparties to meet their obligations, causing the Bank to incur increased specific and collective provisions and write-offs. These events could also result in the undermining of confidence in the financial system, reduction of liquidity and impede the Bank's access to funding. This could adversely affect the Bank's businesses, results of operations and prospects.

The nature and consequences of any such event are difficult to predict with certainty and there can be no guarantee that the Bank would be able to respond effectively to any such event. If the Bank were not to respond effectively, its business, results of operations and prospects could be adversely affected.

Declines in asset values could adversely affect the Bank's operations or profitability

The Bank's performance is influenced by asset markets primarily in Australia, including equity, property and other investment asset markets, particularly in Queensland and to a lesser extent in New South Wales, Victoria, Western Australia and South Australia. Declining asset prices could impact customers and counterparties and the value of security the Bank holds against loans and derivatives which may impact its ability to recover amounts owing should its customers or counterparties default.

In particular, the residential, commercial and agriculture property lending sectors in Queensland, and to a lesser extent New South Wales, Victoria, Western Australia and South Australia, are important to the Bank's business. Overall, Australian property markets have been volatile, particularly in rural Queensland which has experienced reduced asset values in recent years. Prolonged and severe drought conditions are being experienced across parts of New South Wales and Queensland and could have a further adverse impact on agricultural property values in those regions.

There are risks associated with lending to customers that could be directly or indirectly impacted by climate risk. Such risks may stem directly from climate related events, or indirectly from changes to laws, regulations, or other policies such as carbon pricing and climate risk adaptation or mitigation policies, which may impact the customer's supply chain. The Bank's most material climate-related risks result from its lending to business and retail customers, including credit-related losses incurred as a result of a customer being unable or unwilling to repay debt, or climate-related risks that impact the value and liquidity of collateral.

Declining property valuations in the Bank's core Queensland market, or Australia generally, could impact both the demand and supply of credit and could impact bad debt experience particularly where recovery actions are required for non-performing loans. The residential property markets, particularly in metropolitan Sydney and Melbourne, have most recently experienced price declines and falling auction clearance rates. After strong price growth in recent years, as of the end of calendar 2018, house prices nationally were approximately 10% below their late 2017 peak.[1]

A significant decrease in Australian housing market demand or residential, commercial and/or agricultural property valuations, particularly in Queensland, or a significant slowdown in the housing, agricultural, commercial or strata title property markets where the Bank does business, due to declining property valuations, could materially and adversely impact the Bank's lending activities. Demand for the Bank's home lending products may also decline, due to buyer concerns about decreases in values or concerns about rising interest rates, which could make the Bank's lending products less attractive to potential homeowners and investors. Decreases in demand and declining asset valuations could result in a decrease in the amount of new lending the Bank is able to write and/or increase the losses that the Bank may experience from existing loans, which, in either case, could adversely impact the Bank's financial condition and operations. Declining asset values could also impact customers and counterparties and the value of security (including residential and commercial property) the Bank holds against loans and derivatives. This may impact the Bank's ability to recover amounts owing to it if customers or counterparties were to default. It may also affect the Bank's level of provisioning which in turn impacts its profitability and financial condition.

The Bank's portfolio of SME, commercial and agriculture loans may be particularly susceptible to losses in the event of a decline in asset values as a result of refinance risk and deteriorating security values. A material decline in residential housing prices could also impact the value of the Bank's residential development finance portfolio, particularly if buyers who pre-committed to purchase dwellings from a developer borrower are unable or unwilling to complete their contracts with the developer, and the developer was forced to materially reduce its asking price for unsold dwellings and defaults under its loans as a result. Although the Bank has limited development finance exposure, any such developments could nonetheless adversely affect the Bank's business, results of operations and capital resources.

Asset values are also impacted by supervisory measures from the Bank's regulators, such as the limit on a bank's new residential interest-only mortgages to 30% of total new residential mortgage lending and the limit on investor lending growth to a maximum of 10% of a bank's existing portfolio, which were introduced by APRA in 2017 and subsequently lifted in 2018. Supervisory measures and limitations on lending could adversely affect the Bank's lending business and may impact asset values or demand in the markets in which the Bank lends.

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1 Source: RBA Financial Stability Review, April 2019.

An increase in defaults in credit exposures could adversely affect the Bank's results of operations, liquidity, capital resources and financial condition

Credit risk is a significant risk and arises primarily from the Bank's lending activities, which are predominantly concentrated on residential and commercial real estate loans, small business and agricultural lending. The risk arises from the likelihood that some customers and counterparties will be unable to honor their obligations to the Bank, including the payment of interest and the repayment of principal. Credit risk may increase in response to adverse business or economic conditions (including deterioration in valuations or prices of residential and commercial property), a decline in employment levels, volatility in the political environment, or high levels of household debt in Australia.

The Bank may be exposed to the increased risk of counterparty or customer default should interest rates rise above the record or near record low rates of recent years or if economic conditions were to deteriorate for the Bank's customers. In particular, the Bank's portfolio of interest-only loans across retail and non-retail segments, in addition to the residential investor mortgage portfolio, may be susceptible to losses in the event of a rise in interest rates or a decline in property valuations or prices. The Bank may also be exposed to counterparty default in the event of a deterioration of valuations in the market for apartments, through both retail lending and non-retail lending to property developers. Residential mortgage loans with higher LVRs, which constitute a part of the Bank's residential mortgages portfolio, typically have default rates higher than residential mortgage loans with lower LVRs and therefore may be more acutely impacted by economic volatility. The Bank has sought to limit its risk of default on higher LVR residential mortgage lending by requiring all mortgage borrowers of loans with a LVR above 80% to maintain lenders mortgage insurance with counterparties exhibiting a satisfactory risk profile. The Bank, however, cannot provide any assurance that losses from defaulting residential mortgage loans would be fully covered by lenders mortgage insurance. Losses would be incurred by the Bank on such defaulting residential mortgages where the borrower defaults, the property is sold at a price less than the amount of the debt and the provider of lenders mortgage insurance does not honor a claim either because the basis upon which the lenders mortgage insurance is provided was deficient or because the provider of the lenders mortgage insurance is incapable of meeting a claim. Furthermore, in assessing whether to extend credit or enter into other transactions with customers and/or counterparties, the Bank relies on information provided by or on behalf of customers and/or counterparties, including financial statements and other financial information. The Bank may also rely on representations of customers and independent consultants as to the accuracy and completeness of that information. There is a risk that such information may prove inadequate or inaccurate, which could have a material adverse effect on the Bank's business.

Key sources of potential credit risk currently include:

- The decline in the value of residential property that has been observed in a number of areas across Australia (most notably in the capital cities of Sydney and Melbourne). Should this trend continue, the Bank may be subject to an increase in credit losses from lending secured by such assets.

- The Bank's commercial (SME) lending exposes it to potential losses should adverse conditions be experienced across the small business sector. Furthermore, Suncorp has a significant portfolio of lending in the agricultural sector. Volatility in commodity prices, foreign exchange rate movements, climatic events (including droughts, fires, floods and storms), disease, export restrictions, quarantine restrictions, introduction of pathogens and pests, and other risks may impact this sector, which may have an adverse impact on the Bank's financial performance and position.

- The retail sector is confronting challenges that may impact the ability of some retail traders and owners of retail property to meet their credit obligations. These include low household income growth, international entrants, and the growth of online channels.

- Climate change may present risks arising from extreme weather events that affect property or business operations, the effect of new laws and government policies designed to mitigate climate change, and impacts on certain customer segments as the economy transitions to renewable and low-emission technology. As a result, there is a risk of the Bank funding customers secured by assets in sectors experiencing structural decline and with limited liquidity.

- Parts of eastern Australia are experiencing severe drought conditions. The impact is expected to extend beyond primary producers, to customers who are suppliers to the agricultural sector, and to those who reside and operate businesses within regional and rural communities.

Credit risk also arises from certain derivative, clearing and settlement contracts the Bank enters into, and from its dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies. The risk of credit-related losses may be impacted to varying degrees by economic conditions in domestic and global financial markets, a sustained high level of unemployment, a deterioration of the financial condition of the Bank's counterparties, a reduction in the value of assets the Bank holds as collateral, volatility in the political environment, high levels of household debt in Australia and a reduction in the market value of the counterparty instruments and obligations the Bank holds.

The Bank holds collective and individually assessed provisions for its credit exposures. See Note 25 to the Bank's 2019 annual financial statements for a description of the most significant regional, business and individual credit exposures where the Bank believes there is a significant risk of loss. If economic conditions deteriorate, some counterparties could experience higher levels of financial stress and the Bank may experience a significant increase in defaults and write-offs, and be required to increase its provisioning. Such events would diminish available capital and would adversely affect the Bank's operating results, capital resources and financial condition.

The Bank holds specific provisions to cover bad and doubtful debts where the value of collateral securing the loan less the costs of realization is assessed as being lower than the debt. The amount of these provisions is determined by assessing the extent of impairment inherent within the Bank's lending portfolio, based on current information. This process, which is critical to the Bank's position, requires subjective and complex judgements, including forecasts of how current and future economic conditions might impair the ability of borrowers to repay their loans. If the provisions made for credit impairment prove to be insufficient, either because the information upon which the assessment was made proves to be inaccurate or because the Bank fails to analyze the information correctly, the Bank's financial condition could be impacted, which could have a material adverse effect on its business.

The Bank could suffer losses due to failures in risk management strategies

The Bank has implemented risk management strategies and internal controls involving processes and procedures intended to identify, monitor and mitigate the risks to which it is subject, including liquidity risk, credit risk, market risk (including interest rate and foreign exchange risk) and operational risk. See Notes 24 and 25 to the Bank's 2019 annual financial statements and the Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its subsidiaries posted on the Bank's U.S. Investors' Website for further information on the Bank's risk management strategies.

There are, however, inherent limitations with any risk management framework. While the Bank employs a broad and diversified set of risk monitoring and mitigation techniques, including risk modeling, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes, partly due to the complexity of the Bank's operations. The models and techniques used to assess and control risk exposures reflect numerous assumptions about the market and operating environment, accordingly, there may exist, or develop in the future, risks that the Bank has not anticipated or identified or controls that may not operate effectively.

Market conditions in recent years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk. Models are used extensively in the conduct of the Bank's business, for example, in calculating capital requirements and measuring and stress testing exposures. If the models used prove to be inadequate or are based on incorrect or invalid assumptions, judgments or inputs, the Bank's financial performance and financial condition may be adversely impacted. There can be no assurance that the risk management processes and strategies that the Bank has developed will adequately anticipate, or be effective in addressing, market stress, heightened legislative and regulatory scrutiny or other unforeseen circumstances. If any of the Bank's risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, the Bank could suffer unexpected losses and reputational damage which could adversely affect its business and results of operations.

The Bank may be negatively affected if it fails to successfully implement its operating model or if it fails to successfully execute its strategic programs

The Bank faces strategic execution risk relating to the strategic programs and initiatives of the Group and the Bank. Following the changes to the Group's operating model announced on August 7, 2019, physical distribution of the Bank's products has been aligned to the Group's banking and insurance operations. Several of the Group-wide strategic programs and channels, including digital distribution, brand and marketing, Group strategy and the Business Improvement Program, require collaboration across the Group and the Bank. The Business Improvement Program, which is driving several initiatives across the Group and the Bank, is focused on improving the customer experience by reducing unnecessary handoffs in processes, building self-service capabilities and increasing staff productivity.

Effective implementation and coordination of the operating model, the BIP and other strategic initiatives is required to deliver on, and manage, the significant changes across the Group and the Bank's businesses and there is a risk that poor execution or a failure to meet customer expectations may prevent the successful implementation of the Group's (and the Bank's) strategic programs. Significant investments in time, resources and capital have been, and are continuing to be, made across the Group and the Bank. The significant increase in changes across the Bank may have an adverse effect on the Bank's business and operations and some strategic initiatives may become delayed or reprioritized in order to manage strategic execution risk.

The Bank may fail to execute on a chosen strategic program or initiative. There is a risk that the assumptions underlying the Bank's strategic programs and initiatives are (or may prove to be) incorrect, or that the conditions underpinning those strategic programs and initiatives may change. The Bank may not have the resources or flexibility to adapt quickly (or at all) to such change. In addition, any one or more of the Bank's strategic programs or initiatives may prove to be too difficult or costly to execute effectively.

If the Group or the Bank fails to successfully manage strategic execution risk across these strategic programs, the Bank's anticipated results may not be delivered, which may adversely affect the Bank's reputation, business and financial performance.

The Bank may be negatively affected if it, or the Group, fails to successfully execute strategic opportunities, which may include mergers, acquisitions or divestments

The Group and the Bank regularly assess various strategic opportunities to enhance shareholder value that may, from time to time, include joint ventures, investments, mergers, acquisitions or divestments. The Bank may be unsuccessful in identifying such strategic opportunities on acceptable terms in the future. Furthermore, significant risks exist in both the execution and implementation of such strategic opportunities.

The Bank is part of a larger group of businesses within the Group and it is vulnerable to decisions made by the Group, including business or corporate decisions that may not be in the Bank's interests. There is a risk that the Group may, in the future, consider divestment of all or part of its businesses, including the Bank. From time to time, the Group evaluates and undertakes strategic reviews of its various businesses, including the role of the Bank within the Group. In relation to divestments, the Group may divest businesses or capabilities it considers non-core or it may wind down businesses or product areas to enhance shareholder value. For example, during fiscal 2019, the Group completed the sale of its Australian life insurance business. Any such divestments would be subject to approval of the board of the Group, and may be subject to the approval of shareholders of the Group and other conditions and regulatory approvals. The Bank relies on shared services provided by the Group under the shared services agreements between the Group and the Bank and may also rely on capital provided by the Group, see "— The Bank relies on services and may access capital provided by the Group" below. A divestment of the Bank by the Group, or a withdrawal of financial resources by the Group, may adversely affect the Bank's business, financial condition, liquidity, results of operations and prospects.

There is a risk that the assumptions underlying strategic opportunities are (or may prove to be) incorrect, or that the conditions underpinning those strategic opportunities may change. The Bank may not have the resources or flexibility to adapt quickly (or at all) to such change. In addition, strategic opportunities may prove to be too difficult or costly to execute effectively. Opportunities that are pursued may change the Bank's risk profile and capital structure, and inherently come with transaction risks including over-valuation of an acquisition (or under-valuation of a divestment), and the pursuit of such opportunities may expose the Bank to reputational damage and financial risks.

In the case of acquisitions, the Bank may not be able to successfully consolidate or integrate any business or asset it acquires with the existing business of the Bank. The integration of acquired operations and assets may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Moreover, changes in ownership and management may result in impairment of relationships with employees and customers of the acquired businesses. In the case of divestments, the Bank may have ongoing legal obligations relating to warranties and indemnities provided to the purchaser of the divested assets. If the Bank is unable to successfully manage the risks associated with its strategic opportunities, they may not deliver the anticipated results and this could have an adverse effect on the Bank's business, financial performance, financial condition and prospects.

The Bank could face delays and increased costs in implementing new technology systems

The Bank has an ongoing need to update and implement new information systems, applications and technology, in part to assist it to satisfy regulatory demands, ensure information security, enhance digital banking services for the Bank's customers and integrate various segments of its business. The Bank may not implement these projects effectively or execute them efficiently, which could lead to increased project costs, delays in the ability to comply with regulatory requirements, failure of the Bank's information security controls or a decrease in the Bank's ability to service its customers.

The Bank is focused on growing transactional banking to improve resilience, meeting more customer needs and delivering financial outcomes. The Bank continues to invest in its core systems, digital and channel capabilities, products, risk management and people, including in response to changes in the competitive landscape. The Bank's migration to the core banking platform has been largely completed for retail lending, with the majority of broker loans now originated on the platform, however, further work to fully embed and adapt the platform for use is ongoing and the Bank will maintain certain legacy systems while it continues to assess the use cases for additional business lines, such as deposits, to be added to the platform in future. As the Bank continues to embed the core banking platform, update technology, and introduce new customer experiences and products, there is a risk that certain benefits may not be realized as anticipated and that delays or outages may arise.

While the Bank expects initiatives to deliver business benefits that will improve efficiency, profitability and customer experience, such benefits may not be realized and delays and/or increased costs could adversely affect the Bank's business, results of operations and performance.

The Bank could suffer losses due to disruptions or failures of information technology systems and may face information security risks, including cyber-attacks

The Bank and its services offerings (including digital banking) are highly dependent on information systems, applications and technology. Therefore, there is a risk that these information systems, applications and technology, or the services the Bank uses or is dependent upon, might suffer disruption or failure due to various cyber security threats and cyber-attacks. Furthermore, the Bank may face disruption or the complete or partial failure of information systems, applications, technology or services, including internal data center or cloud based infrastructure, due to, among other things, third-party acts outside the direct control of the Bank, capacity constraints to accommodate growth, asset obsolescence, architectural complexity or failed system changes.

The rapid evolution of technology in the financial services industry and the increased expectation of customers for internet and mobile services on demand, continuously exposes the Bank to new and evolving threats in these areas. Most of the Bank's daily operations are digital and its information systems, applications and technology are essential to maintaining effective communication with customers. The Bank is also conscious that cyber threats to information systems, applications and technology are becoming more sophisticated and that the volume of cyber threats and the risk of attacks are increasing. Financial services organizations, including the Bank, continue to be targeted due to the high value of customer data and other information they hold. Cybersecurity risks for financial institutions have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications technology, and the increased sophistication and activities of hackers (including organized crime, terrorists and other external parties, including foreign state-sponsored actors). The Bank may not be able to anticipate or implement effective measures to prevent or minimize disruptions that may be caused by all cyber threats because the techniques used can be highly complex and diverse and those perpetuating the attacks can be well resourced. The Bank is exposed to a number of information and cybersecurity risks, including:

- the complete or partial failure of information technology systems or data center infrastructure;
- the inadequacy of internal, partner or third party information technology systems due to, among other things, failure to keep pace with industry developments; and
- the inability of existing systems to effectively accommodate the Bank's planned growth, prevent unauthorized access and integrate existing and future technologies, acquisitions and alliances.

To manage these risks, the Bank has disaster recovery, and information technology and cybersecurity governance programs in place. However, there can be no guarantee that the steps the Bank is taking in this regard will be comprehensively effective. Any failure of these information technology systems or programs could result in loss or disclosure of private customer data, business interruption, loss of proprietary data, financial loss, legal or regulatory breaches and liability and ultimately the loss of customers, damage to the Bank's reputation and/or a weakening of the Bank's competitive position.

The Bank's operations rely on the secure processing, storage and transmission of large amounts of personal, confidential and other information on its own computer systems, software and networks and the systems, software and networks of external suppliers. The Bank's computer systems, software and networks may be vulnerable to the unauthorized access, misuse, disclosure, disruption, modification or destruction of data, cyber compromise, advanced persistent threats, distributed denial-of-service attacks, malware and ransomware attacks, phishing attacks, computer viruses or other malicious code and other events. Such events could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the Group, its employees, customers or of third parties, and could materially disrupt the Bank's or the Bank's customers' or other third parties' network access or business operations.

In addition, to access the Bank's products and services, customers may use personal smartphones, personal computers, personal tablet computers and other computing/mobile devices that are beyond the Bank's control systems. If personal, confidential or proprietary information of customers or clients in our possession is mishandled or misused, or if we do not timely or adequately address mishandled or misused information, we may face regulatory, reputational and operational risks which could have an adverse effect on our financial condition and results of operations.

The Bank believes that such information security threats may continue due to, among other things, the evolving nature of these threats, the Bank's size and role in the financial services industry, its plans to continue to implement internet banking and mobile banking channel strategies and develop additional remote connectivity solutions, the intention of the Bank to continue to partner with new providers (e.g., fintech companies), the outsourcing of certain business operations and the threat of cyber-terrorism, including by external extremist parties and foreign state actors.

The Bank also faces indirect technology, cybersecurity and operational risks relating to social media, service providers and other third parties, such as its telecommunications providers, with whom business is conducted or upon whom the bank relies to facilitate or enable its business activities. These risks include brand and reputational damage, information leaks, non-compliance with regulatory requirements and governance risk. Cybersecurity risk is receiving increasing regulatory focus, both locally and globally.

Cybersecurity breaches are frequent in occurrence and significant in impact. Successful breaches are being experienced daily across all industries globally. This is drawing the focus of government, regulatory authorities, and media. Communities, customers and investors are becoming increasingly concerned about the potential impact to privacy, financial stability, and service availability posed by cybersecurity attacks and breaches.

The Bank believes that it maintains adequate cybersecurity controls with several teams dedicated to managing day-to-day cybersecurity operations. These teams are focused on the detection, prevention, and response to cybersecurity related threats and events. These teams are working closely with the Bank to create full organizational awareness on managing cybersecurity risks. As cybersecurity threats evolve, it is essential that the Bank continues to adapt and enhance its cybersecurity program's maturity and capability. In response, the Bank continues to invest annually in a Cybersecurity Program of Work to continually improve and uplift cybersecurity controls, ensuring cybersecurity services can support the expanding needs of the Bank and improving the management of cybersecurity risk. However, no assurance can be given that such controls or mitigation steps will be effective. Furthermore, as cybersecurity threats continue to evolve, the Bank will need to maintain its focus and investment to continue to modify or enhance protective measures, and investigate and remediate any information security vulnerabilities or incidents, which could adversely affect the Bank's business, reputation, results of operations and prospects.

The Bank could suffer losses due to operational risks

The Bank is exposed to the risk of loss resulting from the inadequacy or failure of internal processes, people, systems, management of data and data integrity and from external events. This risk includes legal risk, strategic risk and the risk of reputational loss or damage arising from operational risks.

The Bank is exposed to a variety of operational risks, such as internal and external fraud and other dishonest activities; management practices; employment practices and workplace safety; product and business practices; execution, delivery and process management; project and change management; compliance; business continuity and crisis management; damage to physical assets; reliance on key persons and information and systems integrity. Such operational risks may give rise to substantial losses, including financial loss, fines, penalties, personal injuries, reputational damage, loss of market share, property loss, loss or miss-use of information, customer redress or litigation. In addition, the event may adversely affect the perceptions of the Bank held by the public, customers, regulators or ratings agencies. Social media may also influence perceptions of the Bank. Losses from operational risk events may adversely impact the Bank's reputation, financial performance, financial condition and prospects.

Operational risks also include, among other things, outsourcing risks. For example, the Bank relies on a number of external service providers to provide services to itself and its customers. As a result of the BIP strategic initiative, it is likely that more outsourcing will occur in the future. Failure by these suppliers to deliver services as required could result in reduced operational effectiveness, regulatory enforcement actions and reputational damage, and could adversely impact the Bank's operations and profitability.

The Bank maintains an Enterprise Risk Management Framework and risk management standards in order to manage its operational risk exposures. This framework aims to identify, assess and report operational risk on a consistent and reliable basis. There can be no assurance that the framework and strategies the Bank has developed in response to current market conditions will be effective or will adequately anticipate additional market stress or unforeseen circumstances. Therefore, the Bank may incur losses or reputational harm as a result of operational disruptions.

The Bank could suffer losses due to catastrophic events

The Bank and its customers operate businesses and hold assets in a range of locations across Australia and the Bank believes that it holds insurance policies appropriate for its business and the Bank's customers may hold insurance policies for their assets. Any significant catastrophic events or external event (including fire, storm, cyclone, flood, drought, earthquake, any plant, animal or human disease or pandemic, civil unrest, war or terrorism) in any of these locations may temporarily interrupt or restrict the provision of some local or regional services, such as banking, and may adversely affect the Bank's financial condition or collateral position in relation to credit facilities extended to affected customers. The economic and financial market implications of such catastrophic events on domestic and global conditions, has the potential to disrupt business activities, impact on the Bank's operations, damage property and otherwise affect the value of assets held in the affected locations and the Bank's ability to recover amounts owing to it. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, which could adversely affect the Bank's business operations, financial condition, capital resources or prospects.

Reputational damage could harm the Bank's business and prospects

The Bank's ability to attract and retain customers and the Bank's prospects could be adversely affected if the Bank's or the Group's reputation is damaged. Reputational risk may arise as a result of an external event or the Bank's own actions, and may adversely affect perceptions about the Bank or the Group held by the public (including their customers), shareholders, investors, regulators or rating agencies. The Bank may also be exposed to financial or reputational damage that may arise by virtue of its association with the Group. Although the Bank does not control those entities that are part of the Group but not of the Bank, the actions of Group entities may have reputational consequences on the Bank, for example, a major strategic or operational failure by a Group entity using the 'Suncorp' brand, which could in turn have a material adverse impact on the Bank's business, financial condition, reputation, liquidity, results of operations and prospects.

The impact of a risk event on the Bank's reputation may exceed any direct cost of the risk event itself and may adversely impact the Bank's profitability, capacity and cost of sourcing funding and may result in increased regulatory scrutiny and/or impact the availability of new business opportunities. The Bank's ability to attract and retain customers could also be adversely affected if the Bank's reputation is damaged, which may adversely affect the Bank's business, operations and financial condition.

The Bank may incur reputational damage where its policies, processes, practices or behaviors result in a negative outcome for a customer or a class of customers, or where it fails to meet evolving community expectations. As these expectations may exceed the standard required in order to comply with applicable law, the Bank may incur reputational damage even where it has met its legal obligations. A divergence between community expectations and the Bank's practices could arise in a number of ways, including in relation to product and services disclosure practices, the features and benefits of its products, lending practices, remuneration structures, pricing policies and the use and protection of data.

Heightened media and political scrutiny of the Australian banking industry, particularly due to the Royal Commission, has the potential to damage the long-term reputation of the banking industry, or lead to further government intervention or inquiries into the sector. The Bank's reputation could also be adversely affected by the actions of the broader banking and financial services industry or from the actions of its competitors, customers, suppliers, joint-venture partners, strategic partners and counterparties. Additionally, certain operational and regulatory compliance failures may give rise to reputational risk. Such operational and regulatory compliance failures include, but are not limited to:

- failures related to fulfilment of identification obligations;
- new failures related to new product development;
- failures related to ongoing product monitoring activities;
- failures related to suitability requirements when products are sold outside of the target market;
- market manipulation or anti-competitive behavior;
- failure to comply with disclosure obligations;

- inappropriate crisis management/response to a crisis event;
- inappropriate handling of customer complaints;
- inappropriate third party arrangements;
- privacy breaches; and
- unexpected risks (e.g. credit, market, operational or compliance).

Failure, or perceived failure, to appropriately address issues that could or do give rise to reputational risk could also impact the regulatory change agenda, give rise to additional legal risk, subject the Bank to regulatory enforcement actions, fines and penalties, class actions or remediation costs, or harm its reputation among its customers, investors, shareholders, regulators, ratings agencies and the marketplace. The risk of reputational damage may be heightened by the continuing growth and use of social media. This could lead to loss of business, which could adversely affect the Bank's business, results of operations and prospects.

The Bank may incur losses as a result of conduct-related risk events or behaviors that do not appropriately consider the interests of consumers, the integrity of financial markets and the expectations of the community

The Bank's operations are highly dependent on the conduct of its employees, contractors and external service providers. Conduct risk may arise where the Bank, its employees or agents fail to appropriately consider the interests of consumers, the integrity of the financial markets and the expectations of the community in conducting the Bank's business activities, including:

- the provision of unsuitable or inappropriate advice (for example, advice that is not commensurate with a customer's needs and objectives or appetite for risk);
- the representation of, or disclosure about, a product or service which is inaccurate, misleading, or does not provide adequate information about risks and benefits to customers;
- poor product design and implementation, or a failure to adequately provide the products and services that the Bank has agreed to provide a customer;
- a failure to deliver product features and benefits in accordance with terms, disclosures, recommendations and/or advice;
- a failure to appropriately avoid or manage conflicts of interest;
- sales and/or promotion processes (including incentives and remuneration for staff engaged in promotion, sales and/or the provision of advice);
- the provision of credit, outside of the Bank's policies and standards; and

- trading activities in financial markets, outside of the Bank's policies and standards.

The Bank is regulated under various legislative regimes that provide for customer protection in relation to advisory, marketing and sales practices. These may include, but are not limited to, appropriate management of conflicts of interest, appropriate accreditation standards for staff authorized to provide advice about financial products and services, disclosure standards, standards for ensuring adequate assessment of client/product suitability, quality assurance activities, adequate record keeping, and procedures for the management of complaints and disputes.

While the Bank has policies and processes to minimize the risk of human error and employee, contractor or external service provider misconduct, these policies and processes may not always be effective. Conduct-related risk events may result in material litigation (and associated financial costs) and may expose the Bank to regulatory actions, restrictions or conditions on its banking license and/or reputational consequences which could adversely affect the Bank's business, operations, financial condition and reputation.

The Bank is exposed to the risk of receiving significant regulatory fines and sanctions, as well as reputational damage, contractual damage claims and other potential material claims and penalties, in the event of a failure to comply with financial crime legislation and regulations

The Bank is subject to anti-money laundering, counter-terrorism financing, anti-bribery and corruption laws and economic and trade sanctions laws. Financial crime laws can be complex and have been the subject of increasing regulatory change and enforcement in recent years around the globe, including in Australia. The increasingly complex environment in which the Bank operates has heightened these operational and compliance risks. Furthermore, the upward trend in compliance breaches by global banks and the related fines and settlement sums means that these risks continue to be an area of focus for the Bank.

Following the AUSTRAC civil penalty proceedings in 2017 against a major Australian bank relating to alleged past and ongoing contraventions of the AML-CTF, there may be increased regulatory scrutiny of other Australian banks and the Bank may incur additional costs associated with regulatory compliance that may adversely affect the Bank's business, reputation, results of operations, financial condition. AML-CTF requires the Bank and other regulated institutions to (among other things) undertake customer identification and verification, conduct ongoing due diligence on certain customer classes, maintain and comply with an AML/CTF program, undertake ongoing risk assessments and report certain matters and transactions to regulators (including in relation to international funds transfer instructions, TTRs and suspicious matter reports). See "Summary—Recent Developments—AML-CTF Compliance" for a discussion of the recent failure by the Bank to submit TTRs to AUSTRAC in respect of threshold transactions at two of its Stores and "Regulation and Supervision—AUSTRAC" regarding the risks related to the failure to comply with AML-CTF and potential penalties.

The risk of non-compliance with financial crime laws and regulations remains elevated given the scale and complexity of the Bank. New technologies, such as artificial intelligence, biometrics, real-time payments and cryptocurrencies, continue to evolve and could impact the Bank's ability to monitor and respond to exploitation. A failure to operate a robust program to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions could have serious financial, legal and reputational consequences for the Bank and its employees. Consequences for non-compliance can include regulatory actions and monetary penalties, civil and criminal claims and penalties, reputational damage, contractual damage claims and limitations on doing business in certain jurisdictions, which, individually or collectively, could have a material adverse effect on the Bank's business, prospects, reputation, results of operations and financial condition.

The Bank relies on services and may access capital provided by the Group

Members of the Group provide shared services to the Bank pursuant to certain shared services agreements. These shared services include information technology, human resources, business services, company secretarial and investor relations, media relations and corporate communications, taxation, business improvement and strategy, group risk management, group regulatory affairs and other group wide services and business shared services. Other than exercising its rights under the shared services agreements, the Bank has no direct control over the provision of those services, the Group's continued provision of those services or the cost at which such services are provided.

The Bank may also access capital provided by the Group in order to meet capital ratios, whether stipulated by applicable rules and regulations or set by internal policies, and expects this access to continue in the future. The Bank has no direct control over whether or when such capital injections may be provided by the Group and is therefore partly dependent on the financial performance, financial condition and results of the Group and members of the Group. The failure by the Group to provide capital injections when required may adversely affect the Bank's results of operations and prospects.

The unexpected loss of key staff or inadequate management of human resources may adversely affect the Bank's business, operations and financial condition

The Bank's ability to attract and retain suitably qualified and skilled employees is an important factor in achieving its strategic objectives. The senior management team of the Group and the Bank are critical to setting the strategic direction, to successfully manage and grow the Bank and their capabilities and experience are fundamental to the success of the Bank. Unexpected loss due to resignation, retirement, death or illness may adversely affect its operations and financial condition. The Bank may in the future have difficulty retaining or attracting highly qualified people for important roles, which could adversely affect its business, operations and financial condition.

Litigation, regulatory actions and contingent liabilities may adversely impact the Bank's results of operations

The Bank may, from time to time, be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities, which may adversely impact upon the Bank's business, reputation, results of operations and financial condition. There is a risk that any losses may be larger than anticipated, that relevant insurance policies may not cover all losses and that insurance premiums may rise, or that additional litigation, regulatory actions or other contingent liabilities may arise. Furthermore, even where monetary damages may be relatively small, an adverse finding in a regulatory or litigation matter could harm the Bank's reputation or brand, thereby adversely affecting its business. In addition, the Group may be subject to material litigation that could also harm the Bank's reputation or brand and adversely impact the Bank's business.

In recent years, there has been an increase in the number of class action proceedings brought against Australian financial services companies (and other organizations more broadly), many of which have resulted in significant monetary settlements. The risk of class action proceedings being commenced is heightened by findings from regulatory investigations and inquiries (such as the Royal Commission), adverse media, an adverse judgment or the settlement of proceedings brought by a regulator. Furthermore, there is a risk that class action proceedings commenced against a competitor could lead to similar class action proceedings being commenced against the Bank or the Group. The growth in third party litigation funding in Australia has also contributed to a recent increase in the number of class actions being commenced in Australia.

Likewise, there has been an increase in the number of matters on which the Bank engages with its regulators and the Bank expects that such engagement with regulators will increase following the

Royal Commission. There have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The nature of these investigations and reviews can be wide-ranging and, for example, currently include a range of matters including responsible lending practices, product suitability, wealth advice, pricing and competition, conduct in financial markets and capital market transactions, product disclosure documentation and financial crime laws. These investigations and reviews may result in litigation, fines, penalties, revocation, suspension or variation of conditions of relevant regulatory licenses or other administrative action by regulators, and there may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. During the first half of fiscal 2019, the Bank has received notices and requests for information from its regulators as part of both industry-wide and Bank-specific reviews and has also made disclosures to its regulators at its own discretion. There can be no assurance that such disclosures will prevent or mitigate against potential litigation and regulatory actions in the future.

Litigation (including class action proceedings) and regulatory actions may, either individually or in aggregate, adversely affect the Bank's business, operations, prospects, reputation or financial condition.

CAPITALIZATION AND INDEBTEDNESS

The following tables should be read in conjunction with the “Selected Financial Information”, “Management’s Discussion and Analysis of Results of Operation and Financial Condition” and the financial statements and other information appearing elsewhere or incorporated by reference in this Report.

The following table sets forth the Bank’s long-term indebtedness and total capitalization as at June 30, 2019. For details on the Bank’s short-term debt position and the Bank’s deposit liabilities as at June 30, 2019, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Liquidity and Capital Resources” in this Report.

	As at June 30, 2019	
	(US$m)[1]	*(A$m)*
Long-term indebtedness		
Securitization liabilities	2,685	3,831
Unsecured borrowings[2]	5,306	7,570
Secured covered bonds	1,954	2,788
Subordinated notes	471	672
Total long-term indebtedness[3]	**10,416**	**14,861**
Shareholders’ equity		
Share capital	1,856	2,648
Capital notes[4]	410	585
Reserves	(182)	(259)
Retained profits	749	1,069
Total equity	**2,833**	**4,043**
Total capitalization[5]	**13,249**	**18,904**

(1) For purposes of this Report, currencies have been translated at the exchange rate at June 28 2019 of US$0.7009 per A$1.00.

(2) After fiscal 2019, the Bank issued A$750 million (US$515.4 million) of Australian Medium Term Notes on July 30, 2019, due July 30, 2024 and A$350 million (US$237 million) of Australian Medium Term Notes on September 3, 2019, due August 24, 2020, which are not reflected in this table.

(3) As at June 30, 2019, A$2,788 million (US$1,954 million) of the Bank’s long-term indebtedness was secured indebtedness and comprised of covered bond liabilities.

(4) The capital notes are perpetual, subordinated notes of A$375 million, A$175 million and A$35 million, issued to Suncorp Group Limited on May 5, 2017, December 18, 2017 and May 27, 2019, respectively.

(5) Total capitalization represents long-term indebtedness and shareholders’ equity.

SELECTED FINANCIAL INFORMATION

The selected consolidated statement of financial position information as at June 30, 2019, 2018, 2017, 2016 and 2015, and consolidated statements of comprehensive income information for fiscal 2019, 2018, 2017, 2016 and 2015, presented below should be read in conjunction with the Bank's 2019 annual financial statements, 2018 annual financial statements, 2017 annual financial statements, 2016 annual financial statements, and 2015 annual financial statements, respectively.

The financial statements referred to above have been prepared in accordance with AASBs, which comply with IFRS, as at the date of this Report, which vary in certain respects from US GAAP. The financial information presented below has been derived from the financial statements referred to above. The Bank's selected consolidated financial information presented below should also be read in conjunction with the Bank's consolidated financial statements, the sections in this Report captioned "Financial Information Presentation" and "Management's Discussion and Analysis of Results of Operation and Financial Condition" and the other financial information included elsewhere in this Report.

Selected Statement of Comprehensive Income Information

	Fiscal					
	2019	**2019**	**2018**	**2017**	**2016**	**2015**
	(US$m)[1]			*(A$m)*		
Net interest income	**815**	**1,163**	**1,181**	**1,131**	**1,129**	**1,103**
Other operating income	38	54	60	76	88	107
Total net operating income	**853**	**1,217**	**1,241**	**1,207**	**1,217**	**1,210**
Operating expenses[2]	(488)	(696)	(720)	(638)	(653)	(646)
Impairment loss on financial assets	(9)	(13)	(27)	(7)	(16)	(58)
Profit before income tax	**356**	**508**	**494**	**562**	**548**	**506**
Income tax expense	(107)	(153)	(148)	(168)	(165)	(152)
Profit for the period	**249**	**355**	**346**	**394**	**383**	**354**

(1) For purposes of this Report, currencies have been translated at the exchange rate at June 28, 2019 of US$0.7009 per A$1.00.

(2) Fiscal 2018 includes A$41 million of expenses related to the accelerated Marketplace strategy. Fiscal 2016 includes A$14 million of expenses related to restructuring costs incurred by the Bank as part of the implementation by the Group of a new operating model.

Selected Statement of Financial Position Information

	(US$m) [(1)]	As at June 30, (A$m)				
	2019	**2019**	**2018**	**2017**	**2016**	**2015**
Assets						
Cash and cash equivalents	447	638	506	903	1,028	591
Receivables due from other banks	350	499	474	567	552	595
Trading securities[(2)]	860	1,227	1,639	1,520	1,497	1,384
Derivatives	416	593	224	138	675	651
Investment securities[(3)]	2,771	3,954	4,058	4,560	5,225	6,245
Loans and advances	41,461	59,154	58,598	55,197	54,134	51,735
Due from related parties	250	357	362	316	295	226
Deferred tax assets	29	42	45	51	44	81
Other assets[(4)]	134	191	199	169	166	203
Total assets	**46,718**	**66,655**	**66,105**	**63,421**	**63,616**	**61,711**
Liabilities						
Payables due to other banks	247	353	148	50	332	297
Deposits and short-term borrowings	32,628	46,551	46,043	45,427	45,421	44,431
Derivatives	287	409	158	354	498	401
Payables and other liabilities	297	424	423	357	346	400
Due to related parties	10	14	20	63	135	199
Securitization liabilities	2,685	3,831	4,848	3,088	2,544	3,651
Debt issues[(5)]	7,260	10,358	9,854	9,216	9,860	7,876
Subordinated notes[(6)]	471	672	742	742	742	742
Total liabilities	**43,885**	**62,612**	**62,236**	**59,297**	**59,878**	**57,997**
Net assets	**2,833**	**4,043**	**3,869**	**4,124**	**3,738**	**3,714**
Equity						
Share capital	1,856	2,648	2,648	2,648	2,648	2,648
Capital notes[(7)]	410	585	550	825	450	450
Reserves	(182)	(259)	(298)	(307)	(270)	(224)
Retained profits	749	1,069	969	958	910	840
Total equity	**2,833**	**4,043**	**3,869**	**4,124**	**3,738**	**3,714**

(1) For purposes of this Report, currencies have been translated at the exchange rate at June 28, 2019 of US$0.7009 per A$1.00.

(2) Trading securities comprise short-term investments managed by the interest rate trading desk and are measured at fair value. During fiscal 2019, there were maturities of bank and semi-government debt of A$1.58 billion, which were offset by the purchase primarily of semi-government debt and semi-government bonds of A$1.19 billion.

(3) Investment securities comprise debt instruments consisting of government bonds, residential mortgage backed securities and investment graded banking bonds. These assets were reclassified from available-for-sale and held-to-maturity investments held at amortized cost, to fair value through other comprehensive income (“FVOCI”) on the implementation of AASB 9 on July 1, 2018. During fiscal 2019, there were purchases of FVOCI assets for A$1.32 billion

(comprised of floating rate notes for A$574 million, mortgage-backed securities for A$522 million, and semi-government bonds for A$226 million) offset by maturities of A$1.19 billion (comprised of mortgage backed securities for A$333 million, floating rate notes for A$545 million and semi-government bonds for A$316 million).

(4) Other assets is mainly comprised of accrued interest and prepayments.

(5) After fiscal 2019, the Bank issued A$750 million of Australian Medium Term Notes on July 30, 2019, due July 30, 2024 and A$350 million (US$237 million) of Australian Medium Term Notes on September 3, 2019, due August 24, 2020, which are not reflected in this table.

(6) On November 22, 2018, the Bank redeemed A$670 million of Tier 2 subordinated notes. On the same day, the Bank issued A$600 million of subordinated notes for A$10,000 per note. The notes are fully paid, unsecured, cumulative subordinated notes with a maturity date of December 5, 2028, with the option to redeem the notes on the early redemption date of December 5, 2023, subject to APRA approval.

(7) The capital notes are perpetual subordinated notes of A$375 million, A$175 million and A$35 million, issued to Suncorp Group Limited on May 5, 2017, December 18, 2017 and May 27, 2019, respectively.

Regulatory Capital and Ratios

In September 2012, APRA published final standards relating to the implementation of Basel III capital reforms in Australia. APRA has adopted a more conservative approach than the minimum standards published by the Basel Committee and a more accelerated timetable for implementation. APRA’s version of the Basel III capital reforms, as specified under APS 330, came into effect on January 1, 2013.

The following tables provide details of the Bank’s Tier 1 and Tier 2 Capital as at June 30, 2019 2018, 2017 and 2016, as stated in regulatory reporting terms under APS 330.

Capital as per APRA Prudential Standards (Basel III)

	As at June 30,				
	2019	2019	2018	2017	2016
	(US$m)[(1)]	*(A$m)*			
Common Equity Tier 1 Capital					
Common Equity Tier 1 Capital before regulatory adjustments	2,345	3,346	3,214	3,202	3,175
Regulatory adjustments to Common Equity Tier 1	(189)	(269)	(279)	(255)	(295)
Common Equity Tier 1 Capital	**2,156**	**3,077**	**2,935**	**2,947**	**2,880**
Additional Tier 1 Capital	410	585	550	825	450
Tier 1 Capital	**2,566**	**3,662**	**3,485**	**3,772**	**3,330**
Tier 2 Capital					
Tier 2 Capital	563	803	900	897	909
Tier 2 Capital	**563**	**803**	**900**	**897**	**909**
Total Capital	**3,129**	**4,465**	**4,385**	**4,669**	**4,239**

(1) For purposes of this Report, currencies have been translated at the exchange rate at June 28, 2019 of US$0.7009 per A$1.00.

The following table provides the Bank's capital ratios for Tier 1 Capital and Total Capital adequacy as at June 30, 2019, 2018, 2017 and 2016.

Capital Ratios as per APRA Prudential Standards (Basel III)[(1)]

	As at June 30,			
	2019	2018	2017	2016
	(%)			
Common Equity Tier 1	9.25	9.01	9.18	9.15
Tier 1	11.01	10.70	11.75	10.58
Tier 2	2.42	2.76	2.79	2.89
Total Capital	**13.43**	**13.46**	**14.54**	**13.47**

(1) The regulatory table as at June 30, 2019, 2018, 2017 and 2016 has been prepared in accordance with APS 330 as in effect as of June 30, 2019, 2018, 2017 and 2016, respectively.

Certain Performance Ratios and Statistics

	Fiscal			
	2019	**2018**	**2017**	**2016**
	(%)			
Net interest margin (interest-earning assets)[(1)]	1.79	1.84	1.83	1.86
Cost-to-income ratio[(2)]	57.19	58.02	52.86	53.66
Impairment loss to gross loans and advances[(3)]	0.02	0.05	0.01	0.03
Impairment loss to credit risk-weighted assets[(4)]	0.05	0.10	0.03	0.06

(1) Calculated as ((net interest income) / (average interest earning assets)) / (number of days in period) x 365.

(2) Calculated as (operating expenses) / (total net operating income).

(3) Calculated as ((impairment loss on loans and advances) / (gross loans and advances)) / (number of days in period) x 365.

(4) Calculated as ((impairment loss on loans and advances) / (on-balance sheet credit risk-weighted assets)) / (number of days in period) x 365.

SUNCORP-METWAY LIMITED

Overview

The Bank was founded in 1902 as the Queensland Agricultural Bank and has provided banking services to individuals, SMEs and agribusinesses in regional communities of Australia for more than 115 years. The Bank is an ADI regulated by APRA and is headquartered in Brisbane, Australia. It is a wholly-owned subsidiary of Suncorp Group Limited, a diversified financial institution and among the top 20 largest companies listed on the ASX with total assets of A$96.2 billion as at June 30, 2019 and a market capitalization of A$17.8 billion (US$12.2 billion) as at September 6, 2019.

The Bank is one of Australia's largest regional banks with A$59.3 billion of gross loans and advances as at June 30, 2019. It services approximately one million individual, agribusiness, and commercial (SME) banking customers, primarily in Queensland. The Bank provides a range of financial services and simple banking products, which include:

- Retail banking, including home and personal loans, savings, investment and transaction accounts, credit cards and foreign currency services;

- Commercial (SME) banking, including small business banking and financial solutions for SMEs; and

- Agribusiness banking, including financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

As at June 30, 2019, the Bank had A$66.7 billion in total assets. The Bank reported a profit before tax of A$508 million for fiscal 2019 compared with a profit before tax of A$494 million for fiscal 2018 and a profit before tax of A$562 million for fiscal 2017. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Results of Operations" for further information.

The Bank's registered office is located at Level 28, Brisbane Square, 266 George Street, Brisbane, Queensland 4000 and its telephone number is +61-7-3362-1222.

Corporate History

The Group's history dates back more than 115 years and involves a number of state and publicly owned banking, general insurance and superannuation companies. In 1902, the Queensland Government established the Queensland Agricultural Bank, which later became part of the Queensland Industry Development Corporation ("QIDC"). The State Accident Insurance Office started business in 1916 and became later known as the State Government Insurance Office and then as Suncorp. Metway Bank was established as the Metropolitan Permanent Building Society in 1959 and became later known as Metway Bank.

Suncorp and QIDC were owned by the Queensland Government. On December 1, 1996, they were merged into the publicly listed Metway Bank Limited, creating a new integrated financial services provider headed by Metway Bank Limited (which was renamed Suncorp-Metway Limited).

On July 1, 2001, Suncorp-Metway Limited acquired AMP Limited's Australian general insurance interests. The business mix became more diversified, with growth in retail and commercial lines and the addition of workers compensation lines.

On March 20, 2007, Suncorp-Metway Limited merged with Promgroup Limited (the "Promina Merger"), formerly known as Promina Group Limited ("Promina Group"). Shares in Promina were delisted as a consequence of the Promina Merger.

Prior to the NOHC Restructure, Suncorp-Metway Limited was the parent company of what is now the Group's general insurance, banking, life insurance and superannuation businesses. Following the NOHC Restructure, which was effective January 7, 2011, the Bank became a wholly owned subsidiary of Suncorp Group Limited, an ASX-listed company. Although the Bank's ordinary shares are no longer listed on ASX, it has floating rate capital notes listed on ASX and, accordingly, the Bank currently remains subject to the disclosure and other requirements of ASX as they apply to companies with ASX listed debt securities. See "— Reorganization" for further information.

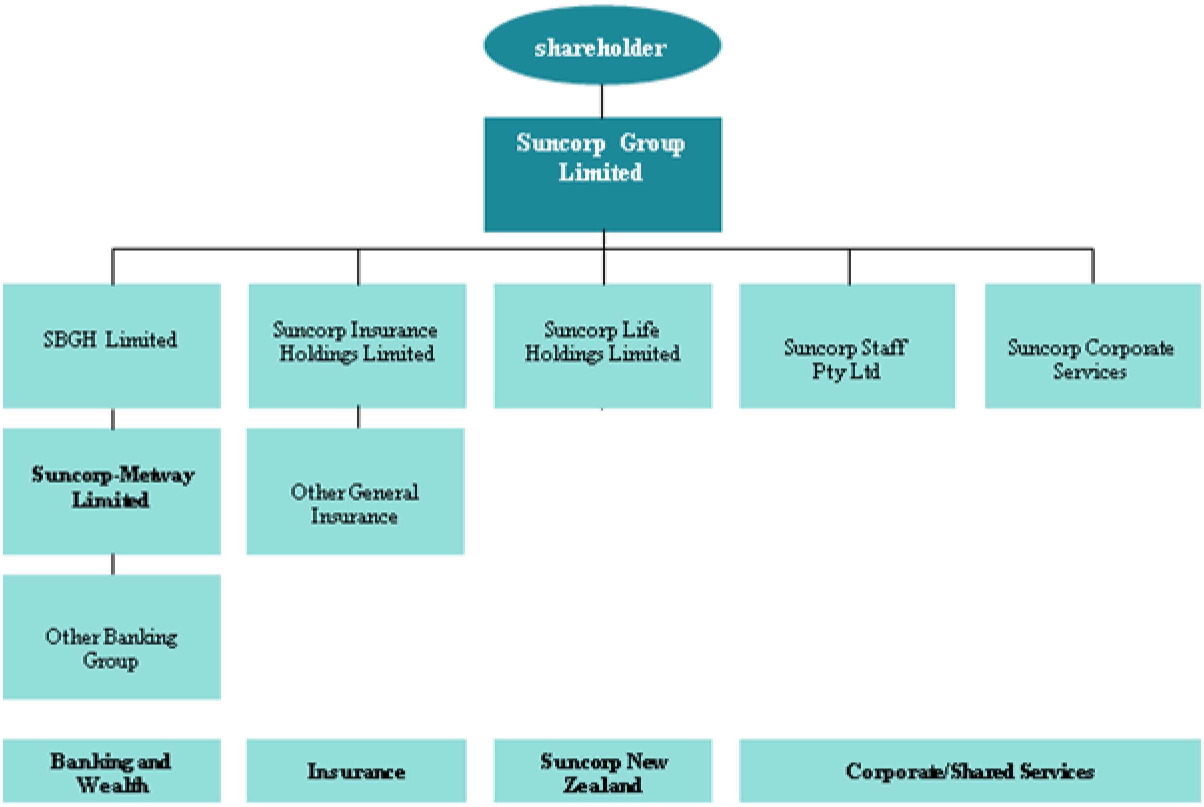
Following the global financial crisis, the Group undertook a strategic review of its operations and determined to focus on the Bank's core operations in the relatively lower risk lending businesses of retail, agribusiness and commercial (SME) and to run off its Non-Core Portfolio. As at June 30, 2019, only a residual portfolio of non-core assets remained. The majority of this residual portfolio is managed as part of the Bank's commercial (SME) loan portfolio.

In addition to the ongoing de-risking of its businesses, the Group announced the BIP in 2017. BIP is a Group-wide program aimed at driving operational efficiencies across the Group and the Bank and is focused on sustainable initiatives that improve the customer experience, drive efficiencies and embed a culture of continuous improvement. BIP delivered a total net benefit to the Group of A$280 million for fiscal 2019, exceeding the original target for fiscal 2019. As at June 30, 2019, the calendar 2019 gross benefits to the Group were A$351 million, with the greatest contributor to the increase flowing from procurement initiatives and streamlining business activities.

Reorganization

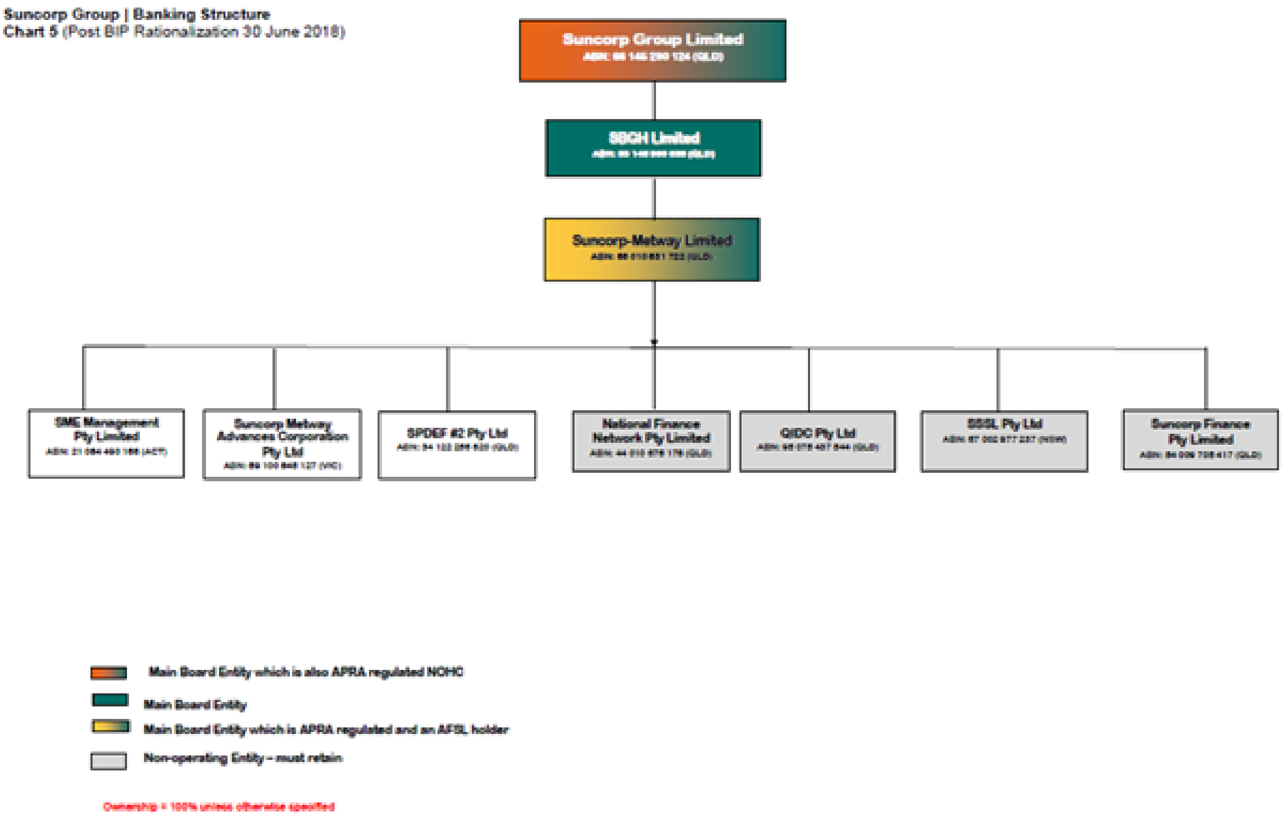
Following the NOHC Restructure, the Bank became a wholly owned subsidiary of Suncorp Group Limited. A simplified corporate structure of Suncorp Group Limited and its subsidiaries (including the Bank) following the implementation of the NOHC Restructure and the corporate structure of the Bank are as follows:

Corporate Structure of the Group



The Group has three operational business units, Banking and Wealth, Insurance and Suncorp New Zealand. The Bank plays an important role within the Group, as one of the Group's leading financial services brands. In addition to the Bank, the Group operates a wealth business and a range of general insurance businesses in Australia and New Zealand, such as, AAMI, APIA, Bingle, GIO, Vero and others. In February 2019, the Group completed the sale of its Australian life insurance business (see "Suncorp-Metway Limited — Business Strategy") for more information.

Corporate Structure of the Bank



Relationship between the Group and the Bank

As a result of the NOHC Restructure, the Bank became a wholly owned subsidiary of Suncorp Group Limited. Accordingly, the Bank is subject to the Group's Corporate Governance Framework. Under that Corporate Governance Framework, the boards of Suncorp Group Limited and the Bank, have the same directors. Each board is comprised of a majority of independent directors. There are currently five permanent sub-committees of each board of directors: the Audit Committee, the Risk Committee, the People & Remuneration Committee, the Customer Committee and the Nomination Committee. The Customer Committee was established in October 2018. Each of the board sub-committees of Suncorp Group Limited and each of the board sub-committees of the Bank, are also comprised of the same directors. Additional information regarding the Bank's corporate governance policies and risk management policies and framework are included in the Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries posted on the Bank's U.S. Investors' Website.

In addition to its ability to access a broad range of wholesale funding, the Bank benefits from capital investments made from time to time by the Group. These investments have been made for a variety of purposes, including to fund the redemption of the Bank's regulatory capital securities, ensuring the Bank satisfies its capital ratios and for general corporate purposes. For example, in February 2015, as part of the capital management between the Bank and the Group, the Bank issued A$82.5 million ordinary shares to the Group. The Group purchased two issues of subordinated notes from the Bank in May 2017 (A$375 million) and in December 2017 (A$175 million), respectively, in order for the Bank to complete a buyback of A$450 million of subordinated notes that were originally issued by the Bank to the Group in December 2012. Both the issues of subordinated notes and the notes bought back met Australian regulatory requirements to qualify as Additional Tier 1 Capital. In fiscal 2019, the Group purchased A$600 million subordinated notes issued by the Bank in November 2018, in order for the Bank to complete a buy-back of A$670 million subordinated notes, originally issued by the Bank to the Group in May 2013. Both the issue of the subordinated notes and the notes bought back met Australian regulatory requirements to qualify as Tier 2 Capital. In May 2019, the Group purchased a further A$35 million of subordinated notes issued by the Bank, qualifying as Additional Tier 1 Capital, as part of managing its capital requirements.

The Bank has provided a number of intercompany loans to other members of the Group for their working capital and general corporate purposes totaling A$379 million as at June 30, 2019, which predominantly comprise of short-term and long-term revolving facilities to related corporate services entities of the Bank, which provide corporate and business shared services across the Group. Intercompany loans are not guaranteed by Suncorp Group Limited.

A number of banking transactions occur between the Bank and other members of the Group. These transactions occur in the ordinary course of business and are typically on terms equivalent to those made on an arm's length basis. These include loans, deposits and foreign currency transactions, upon which some fees and commissions may be earned by the Bank. Other transactions between the Bank and other members of the Group comprise advances made to, and received from, other members of the Group, dividends received from, and paid to, other members of the Group, as well as interests received from, and paid to, other members of the Group. All these transactions are generally made on commercial terms, except that some advances may be interest free.

Business Strategy

The Bank principally operates as a regional bank and seeks to grow its business in its primary market of Queensland, as well as in New South Wales, Victoria and South Australia. The Bank strives to achieve this objective by leveraging the Group's operating model to deliver value for the customer.

Operating Model update

The Group's operating model places the customer at the center of the business with all customers treated as Group customers, and allows the Bank to leverage the Group's investments in simplification and optimization programs.

The Group's operating model supports its focus on meeting the financial needs of customers through banking, wealth, insurance and partnered products and services, and on allowing customers to interact digitally (online or through apps) or physically (through Stores or Business Centers) or through contact centers (call centers) and intermediaries.

Under this operating model, the Group has three operational business units, Banking and Wealth, Insurance and Suncorp New Zealand (which were previously referred to as Bank, Life and General Insurance). On February 28, 2019, the Group completed the sale of its Australian life insurance business. The transaction was structured as a sale of 100% of the shares in Suncorp Life & Superannuation Limited, which included the Group's Australian life risk and participating annuities and unit-linked wealth business but excluded the Australian Wealth Suncorp Portfolio Services Limited superannuation business.

Each of the Group's operational business units is responsible for product design and manufacturing, physical distribution, claims management (for the Group's insurance businesses), the delivery of industry-leading experiences and end-to-end responsibility for the statutory entities within the Group.

The operational business units of the Group are supported by the new Customer and Digital function, established on August 7, 2019. The new function aims to develop innovative, digital-first customer propositions, building on Suncorp's digital foundations. The Customer and Digital function has responsibility for Group customer and digital strategy; digital distribution; brand and marketing; and the Enterprise Portfolio Management Office.

In addition, the Customer and Digital function and operational business units are supported by, and receive shared services from, the following four key Group corporate functions, which include:

- ***Technology, Data & Labs***, which is responsible for all technology, digital enablement, cloud and infrastructure protective services, projects and programs and a new innovation labs function. This function focuses on delivering the systems and initiatives required to create, maintain and continuously improve customer platforms while ensuring stability and security;

- ***People Experience***, which includes human resources and is also responsible for real estate, learning and partnering. The People Experience function is intended to identify the talent, capability and environmental needs to help the Bank execute on its platform for growth;

- ***Finance, Legal & Advice***, which is responsible for performance management, Group capital, investment strategy, Group strategy, corporate development, cost control, cash management, finance systems, financial control, financial and regulatory reporting, Group tax, corporate affairs and investor relations and procurement. Since October 2017, this function has been responsible for overseeing the Group's legal affairs and the mitigation of legal risks throughout Australia and New Zealand, along with company secretariat and governance services for the Group in both countries; and

- ***Risk***, which is responsible for leading the risk management, compliance and internal audit disciplines of the Group.

There are no current plans to change the existing legal entities, the composition of businesses within the Bank or the governance structures of the Group.

Bank's Strategy

The key strategic priorities of the Group, and the Bank, are:

- "*Brilliant customer experience*": The Group and the Bank seek to enhance and build trust with customers, including in differentiated ways to peers, by enhancing brand propositions that leverage the broader Group ecosystem and the Reward and Recognition Program. This work is underpinned by customer segmentation that facilitates the development of differentiated, targeted propositions for customers. A 'brilliant customer experience' involves meeting customers' expectations for timely and convenient fulfilment of product and service needs when they make contact through each of the Group's channels.

- *"Digital":* The Group and the Bank intend to continue to mature their digital capabilities to facilitate delivery of three streams of digital enablement: (1) differentiated digital propositions, (2) self-service and (3) digitized and automated processes. Over the past two years the Group has invested in the foundations needed to implement differentiated digital propositions. The Group will seek to leverage these foundations to continue to enhance product and service offerings. The Group's digital assets are expected to be particularly valuable under the Open Banking regime where the Group and the Bank can leverage data to attract customers and incentivize existing customers to share their data.

- "*Product innovation*": This involves ongoing strengthening of product capability (including in relation to design, risk selection and pricing) and innovating new solutions (e.g. telematics, whole of person care, cyber insurance). The focus across the core businesses will be on portfolios where the Group and the Bank have competitive advantage or the opportunity is material.

- *"Engaged and enabled people*": To deliver the strategy, the Group and the Bank need to continue to build an inclusive, diverse and highly engaged workforce that is the right size and shape to deliver business goals while working as one team. The Group and the Bank aim to achieve this goal through a focus on aligning people to the Group's purpose and strategy, creating pride in the Group through building an environment where people are energized and optimistic, and preparing people for the future of work.

The Bank is in the process of implementing a number of initiatives to deliver the following strategic priorities:

Pursuing targeted growth. The Bank is working to leverage technology and risk management capabilities, with the objective of driving growth and building market share in its banking portfolio.

The Bank supports its retail banking growth through simplified processes, clear product and service propositions, improved digital capabilities for personal customers, competitive market offerings, and enhanced origination and servicing capabilities.

The Bank seeks to grow its business banking portfolio through targeted offers within selected well-known market segments and industries within the Bank's risk profile. The Bank has introduced several initiatives intended to enhance long-term growth in the business lending portfolio. These initiatives include streamlining the loan approval process.

In agribusiness banking, the Bank seeks to pursue growth within select industries and geographies while adapting to changing conditions and exercising caution with its approach to risk selection in this sector. The Bank continues to utilize a collaborative customer approach to supporting customers and communities under stressed conditions and will continue to pursue diversified growth across its targeted regions and industries. A clear risk appetite continues to guide decisions around new business.

There continues to be increased focus on transactional banking across the Bank to maximize financial outcomes, improve resilience, meet more customer needs and deepen relationships through frequent interaction points. The increase in stable deposits (at-call and term deposits) supports the maintenance of an appropriate NSFR position and enables a comparative funding advantage, relative to the Bank's prior results, which enables targeted asset growth.

The Bank is focused on improving product and system capabilities, by both manufacturing and partnering to make banking easier for its customers and leveraging its investment in digital and payments capabilities to expand its presence interstate, supported by the national rollout of the Suncorp brand. This includes leveraging the Bank's investment made in online origination capability, additional self-service functionality and the introduction of digital wallets, to deliver increased value to customers as cashless transactions continue to increase.

The RBA-backed NPP launched in Australia in February 2018. A number of financial institutions, including the Bank, have connected or intend to connect to the payments infrastructure to enable fast, versatile and data-rich payments. The NPP seeks to provide a platform that will enable real-time clearing and settlement for payments and other features, such as an addressing service, which will enable the use of email addresses, phone numbers or ABNs. The Bank participates in the NPP via an indirect participation model and is sponsored by a Full Participant (as that term is described in the NPP Regulations published by NPP Australia Limited), via an agency mandate. From May 2019, the Bank enabled eligible customers to send and receive real-time payments via their BSBs and account numbers, with Pay ID functionality planned to follow in staged releases in the second half of fiscal 2020. Pay ID functionality allows customers to register and maintain their unique information (e.g., email addresses, phone numbers or ABNs) and link it to a BSB and account number to enable payments via this unique information.

The Group and the Bank also regularly assess various strategic opportunities to enhance shareholder value that may, from time to time, include mergers, acquisitions or divestments.

Operational Excellence. The Australian banking market is dominated by four major Australian banks that are able to leverage their scale to drive down unit costs. At the same time, new entrants and non-traditional competitors are utilizing new digital technologies to create low cost business models. The Bank is targeting to reduce its cost-to-income ratio over the longer term through a focus on simplifying its business to drive efficiency outcomes.

The Group and the Bank are driving the Business Improvement Program. The BIP is a Group-wide program focusing on five streams of work, four of which are relevant to the Bank. The four streams of work relevant to the Bank are as follows:

- Digitization of customer experiences – designed to improve capability for customers to interact digitally by encouraging self-service and control over policies and accounts;

- Sales and service channel optimization – designed to reduce handling time, optimize physical footprint and ensure focus is on services that drive the most value for customers, such as in-store sales and face-to-face interactions;

- End-to-end process improvement – designed to drive operational excellence to improve customer satisfaction and retention, and attract new customers to the Bank; and

- Smarter procurement and streamlining the business – designed to reduce costs by reviewing arrangements with the Bank’s strategic partners and suppliers. This stream of work is designed to also optimize the support functions and partnering arrangements for the Group and the Bank.

The Bank aims to be responsive to changes in the competitive landscape through continued focus on meeting customer needs and through investment in its digital and channel capabilities, product enhancement, risk management and people.

The core banking platform is substantially in place, with retail lending functionality implemented and in use. The migration of deposits and transaction banking products has been paused, pending further system enhancements from the vendor and demonstrated use of the software in the market. Certain components of the legacy platform will be retained until such time as the functionality and performance of these new components have been adequately tested in the market and the Bank is satisfied that they may be transferred to the core banking platform.

Lender activity from the Banking and Wealth business is aligned to the Bank. The core banking platform combines an automated decision-engine model which reflects and applies the Bank's risk strategy and underwriting criteria with an additional layer of human authority for approvals of loans that do not meet the automated criteria, both of which are monitored and audited by the Risk corporate function.

The Bank has also enhanced its arrears management strategy which combines system generated notices and follow-up with dedicated personnel, covering customer contact through mitigation and hardship processes to ultimate resolution and/or repossession. The management of vulnerable customers continues to be a key focus of the Bank. See "Suncorp-Metway Limited — Businesses" for more information.

Providing a differentiated banking experience. The Bank, through the Customer and Digital function, aims to understand its customers' needs better than its competitors so that it can provide its customers with the necessary tools to "*create a better today*" by offering products and services that meet their financial needs at every stage of their lives. The Bank is conscious that it must offer a different value proposition than its competitors in order to stay relevant to its customers.

In addition, the Bank has responded to changing customer behaviors by continuing to invest in its digital platform. This includes the delivery of the Suncorp App, online account origination for transaction accounts, enhanced digital self-service capabilities, digital wallets and modernizing its traditional branches through its new Stores.

Evolving the Bank's culture. The core objective of the Bank is to align its culture to the strategy by enabling its employees to create deeper, more connected relationships with customers. The aim is for the Bank's employees to develop a customer-centric mindset, a consistent service culture, the necessary people capabilities for operating the core banking platform, and a workforce that is focused on building trust with customers. A framework of tools and resources has been established to assist the Bank's employees to better understand and respond to customer needs.

The Bank is also continuing to implement and ingrain a higher level of risk awareness across its workforce as part of its efforts to be in the best position possible to achieve Basel II advanced accreditation should the Bank ultimately decide to apply to APRA for advanced accreditation. Tools implemented as part of the Basel II advanced accreditation program are aimed to provide the Bank's employees with a deeper understanding of the underlying risk and profit drivers of the Bank's business so they can direct their sales efforts in a more effective way.

The Bank continues to expand and evolve its flexible working model that employs new technologies to allow employees to work remotely more effectively. The model focuses on allowing employees additional flexibility and support to work from home during pre-agreed hours each week (including outside of traditional working hours) or to work permanently from home. The Bank believes that greater flexibility in working hours and location enhances the attractiveness of the Bank as an employer and supports the key strategic priority of the Bank to have an engaged and enabled workforce.

Enhancing risk and capital management. The Bank continues to apply what it believes is a disciplined approach to risk and capital management through operating as an advanced bank. Reforms to the risk-based capital adequacy framework set out in the Basel Committee's publication, "*Basel III: A global regulatory framework for more resilient banks and banking systems*" ("Basel III") and APRA's roll-out of 'Unquestionably Strong' benchmarks, communicated to the market from mid-calendar 2017, require further consideration as they are expected to reduce the gap between standardized and advanced bank capital requirements. During calendar 2018, APRA released further discussion papers on the implementation of the revised capital framework, which APRA has stated is likely to come into effect on January 1, 2022. Expected impacts cannot be confirmed before APRA releases the draft standards. See “Regulation and Supervision — APRA — Basel II Advanced Accreditation” for more information.

The Bank’s significant investment in risk management capability, culture and technology has driven better understanding of the Bank’s underlying risks and profit drivers and improved decision making. Specifically, the Bank believes it has improved its ability to calculate risk/return dynamics, in order to price risk more effectively and manage capital more efficiently. The benefits of these capabilities are expected to continue to be realized through improved risk selection and business performance. This is designed to allow the Bank to continue to effectively compete in its target markets, particularly during times of heightened competition.

Business Strengths

A key differentiating opportunity for the Bank, particularly compared to other Australian regional banks, is to leverage the size and scale of the Group. This provides for comparatively lower-cost access to centralized corporate functions and additional revenue opportunities from the Group’s large existing customer base. The Bank believes that its key competitive strengths include:

Efficiency and scale. The Bank uses the Group’s infrastructure and services to more effectively manage its costs. Members of the Group provide integrated shared services across the Group, including all key Group corporate functions and other Group-wide services and business shared services. In addition, the increased level of investment in technology by the Group provides access to technology and resources that would be difficult to sustain at the Bank level on a standalone basis. See “Suncorp-Metway Limited — Relationship between the Group and the Bank” for further information.

Strong brand and customer relationships. The Bank believes that it benefits from the Group’s portfolio of leading brands in the Australian financial services industry and seeks to leverage the customer relationships of the Group to grow its business in Australia. The Bank also believes that it benefits from the Group’s operating model, which encourages Group customers to hold multiple Group products, including the Bank’s products such as deposits, transaction accounts and loans, and seeks to deepen relationships and strengthen loyalty to its brands and to facilitate access to the Group’s products and services. The Bank’s strong brand and customer relationships are consistent with the Group’s strategic priorities to deliver a brilliant customer experience, drive digital capabilities and product innovation and to build an engaged and enabled people. The Stores are facilitating connections across the wider Group’s customers by offering solutions that meet their financial needs at every stage of their life.

Genuine alternative to the four major Australian banks. The Bank believes that one of its principal competitive advantages is that it delivers the product range, access options and capability of a major bank with the customer service focus of a regional bank. The Bank believes it has a comparable retail banking product offering to the four major Australian banks in the areas where it competes, including retail, commercial (SME) and agribusiness banking, and can benefit from the customer network of the Group.

Community driven culture. The Bank currently has approximately one million customers, capturing Australians’ sense of belonging and community connection through its positioning as a genuine alternative to the four major Australian banks. The Bank aims to build deep and extensive connections with its customers through a common platform of systems, processes, tools and behaviors that enable its people to have consistent interactions and conversations with customers. The Bank’s employees have accountability for local leadership so that they can be genuine contributors to local communities and understand businesses at a local level. The Bank’s retail and business customer satisfaction regularly ranks ahead of the major banks in Australia. At June 30, 2019, personal banking customer satisfaction was 77% compared with an average of 64% for the four major Australian banks (Source: Consumer Atlas, June 30, 2019) and business banking customer satisfaction was 73% compared with an average of 68% for the four major Australian banks (Source: Consumer Atlas, June 2019).

Experienced Board and management team. The Group's Board, which is also the Bank's Board, is led by its Chairman, Ms. Christine McLoughlin, who has been a director of the Group since February 2015, and was elected by the Board to assume the role of Chairman of the Group's Board, following the retirement of the former Chairman, Dr. Zygmunt Switkowski, in September 2018. Members of the Board have significant experience across a range of financial services businesses. The Group Chief Executive Officer and Managing Director of the Bank and the Group Boards, Steve Johnston (formerly the Group Chief Financial Officer and Acting Chief Executive Officer of the Group), has over 20 years of experience in senior corporate and government positions and has held a number of senior executive positions with the Group since 2006. The Bank's management team also has extensive experience in financial services. David Carter, the Chief Executive Officer, Banking and Wealth, has over 25 years of experience within the financial services sector across banking, wealth management and life insurance and has held senior executive positions within the Group for over ten years. Erin Strang was appointed as the Chief Financial Officer, Banking and Wealth on July 1, 2019, after previously holding the Bank Treasurer position since January 2017.

Recent Developments

CEO and Managing Director appointment

On May 27, 2019, the Group announced that Michael Cameron, CEO of the Group and Managing Director of the Bank and the Group Boards, would be stepping down from his positions with the Group and from both Boards. On May 27, 2019, Suncorp announced that Steve Johnston had been appointed as Acting Chief Executive Officer of the Group. On September 9, 2019, the Group announced that Steve Johnston was appointed as CEO of the Group and Managing Director of the Bank and the Group Boards, effective immediately.

Acting CFO appointment

On May 27, 2019, the Group announced that Jeremy Robson had been appointed as Acting Chief Financial Officer of the Group.

Organizational Changes

On August 7, 2019, Suncorp announced the establishment of a new Customer and Digital function. The new function aims to develop innovative, digital-first customer propositions, building on Suncorp's digital foundations. The Customer and Digital function has responsibility for Group customer and digital strategy; digital distribution; brand and marketing; and the Enterprise Portfolio Management Office.

Suncorp is also aligning its Australian contact centers, Stores and intermediary distribution teams with its Banking and Insurance operations.

As a result of these changes, CEO Customer Marketplace Pip Marlow decided to leave the business effective from the end of August 2019.

The new Customer and Digital function is led by the Chief Customer and Digital Officer, Lisa Harrison. Ms. Harrison has almost 15 years' experience at Suncorp having held various executive general management roles across product, pricing, digital sales, marketing and insurance operations. She was appointed to the Senior Leadership Team in 2017 as Chief Program Excellence Officer and has been responsible for the successful delivery of the Business Improvement Program.

AML-CTF Compliance

During fiscal 2019, the Bank became aware of an operational error at two of its Stores that resulted in a failure to meet the Bank's obligation under the AML-CTF to submit TTRs to AUSTRAC within 10 business days of each threshold transaction. Each failure to generate a TTR is a breach of the AML-CTF. One of the impacted Stores operated from November 2012 to November 2018 and the other was opened in April 2018 and continues to operate. TTRs for each of the impacted Stores were not provided to AUSTRAC. Following the finalization of its investigation, the Bank identified 286 threshold transactions at the affected Stores that did not generate the required TTRs and self-reported these findings to AUSTRAC. The operational error was remediated at the Store that remains in operation. The Bank received a request for further information from AUSTRAC on July 18, 2019, requesting further detail to be provided in relation to its TTR procedures, practices and controls and the Bank provided this information to AUSTRAC in August, 2019. Although the timing and scope of AUSTRAC's review is uncertain, the Bank does not believe that the nature and quantum of any penalties and consequences (e.g. reputational damage) associated with the failure to submit TTRs would have a material impact on the results of operations and financial condition of the Bank.

The Bank confirmed with AUSTRAC, as part of its further investigations, that the two Stores were the only Stores impacted by this issue; that the root cause of the breach was the failure to apply TTR reporting flags to these Stores when they were opened (because the Stores had been allocated previously decommissioned Store Codes); that transaction monitoring rules and suspicious matter reporting processes were functional for all Stores during all times that the TTR's had not been reported; and that TTR monitoring activities had also been conducted during the period. All 286 unreported transactions were manually reported to AUSTRAC and the Bank confirmed to AUSTRAC that the remediation activities in relation to the breach had been completed in its correspondence of May 1, 2019. Since the identification of this breach, the Bank has enhanced its TTR monitoring program and implemented controls in its Store opening procedures and IT systems in relation to TTR reporting flags.

See "Summary—Recent Developments—AML-CTF", "Risk Factors—The Bank is exposed to the risk of receiving significant regulatory fines and sanctions, as well as reputational damage, contractual damage claims and other potential material claims and penalties, in the event of a failure to comply with financial crime legislation and regulations" and "Regulation and Supervision—AUSTRAC".

Businesses

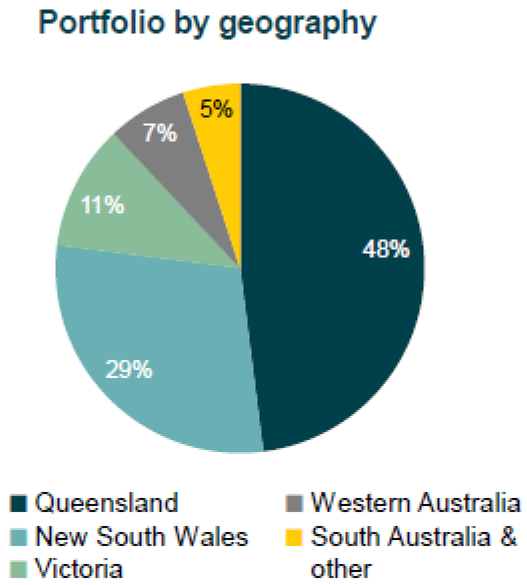
The Bank's business operates predominantly in Queensland and, to a lesser extent, New South Wales, Victoria, Western Australia and South Australia. The Bank provides retail banking services and business banking services.

Retail Banking

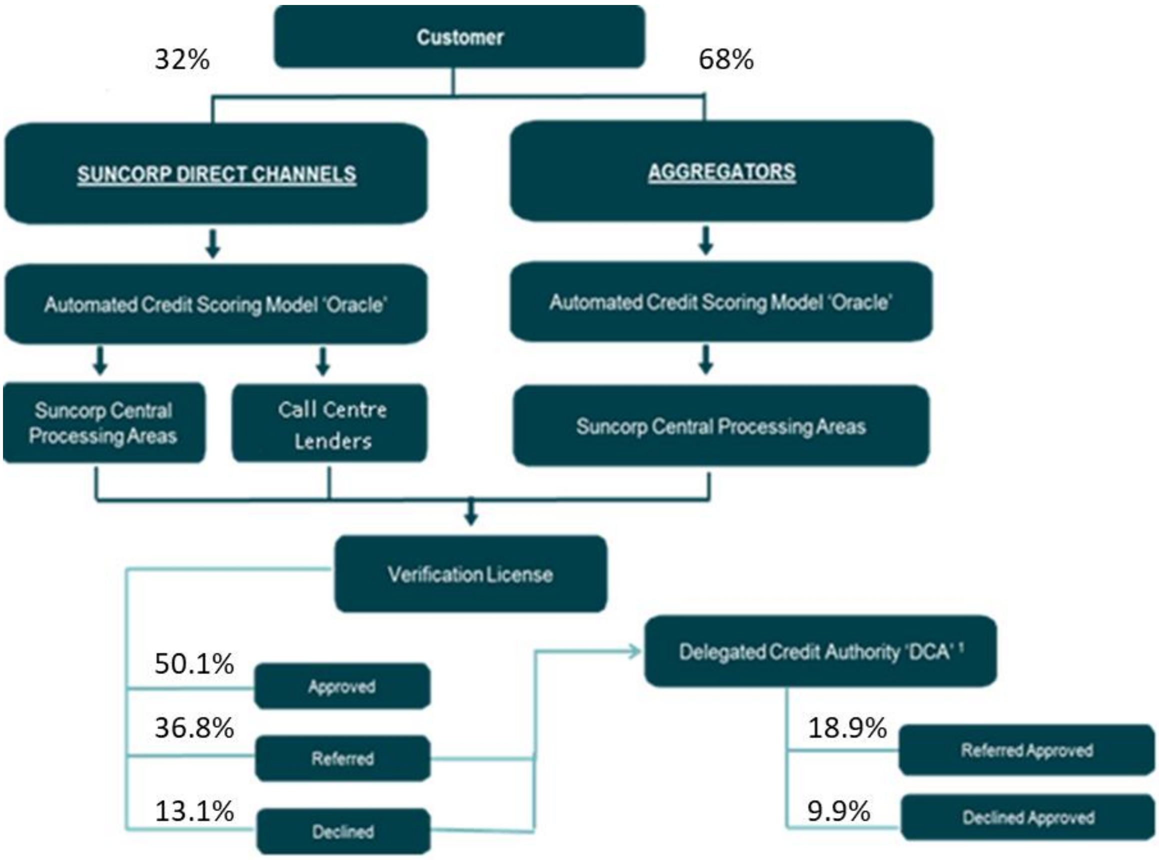
The Bank's retail banking business provides home and consumer loans, transactional, savings and investment deposit accounts, credit cards and foreign currency services for approximately one million customers in Australia. These services are delivered through Stores located primarily in Queensland, as well as in New South Wales, Victoria, Western Australia and South Australia, as well as through call centers and digital channels, such as internet and mobile banking. In addition, the Bank operates call centers, provides internet banking and partners with a third party provider to provide ATM services to its customers. As at June 30, 2019, the Bank's total retail loans were A$48.0 billion and total customer funding was A$38.9 billion. Housing loans represented 80.6% of the Bank's gross loans and advances as at June 30, 2019.

The Bank's retail banking business primarily offers the following products:

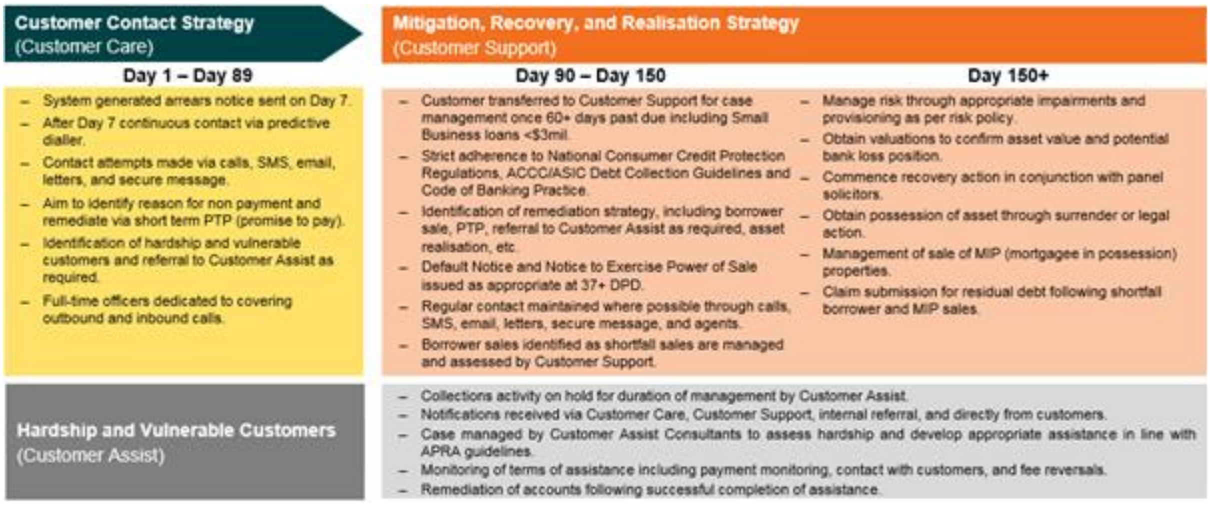
Housing Loans. The Bank provides a range of housing loans, including owner-occupied and investment loans, comprising 72% and 28% of total housing loans, respectively. As at June 30, 2019, the Bank had a total of A$47.8 billion in outstanding total housing loans. The Bank's housing loan portfolio continues to focus on building geographical diversification, although it is still predominantly concentrated in Queensland and New South Wales, which together represented 77% of the Bank's total housing loans as at June 30, 2019. The chart below illustrates the distribution of housing loans by state as a percentage of the total housing loans outstanding as at June 30, 2019.



The chart below illustrates the Bank's mortgage origination process, which combines direct mortgage origination through the network of Stores and call centers (32% of originations) and indirect mortgage origination through aggregators (68% of originations).



The Bank has enhanced its arrears management strategy which combines system generated notices and follow-up by dedicated personnel, covering customer contact through mitigation and hardship processes to ultimate resolution and/or repossession. The management of vulnerable customers continues to be a key focus for the Bank and a specialized team was established on July 1, 2019 to provide case management for highly vulnerable customers. The chart below illustrates the Bank's arrears management process.



The Bank remains focused on the quality of its lending portfolio and 82% of new housing loans written during fiscal 2019 had a LVR of less than 80%.

Consumer Loans. The Bank provides a range of consumer loan products, including personal and car loans, overdrafts and credit cards. As at June 30, 2019, the Bank had a total of A$149 million in consumer loans outstanding.

Customer deposits are managed to support the Bank's lending growth, liquidity and revenue objectives. The acquisition of high quality, relatively stable customer deposits remains a key focus for the Bank. Total customer funding increased 0.9% from A$38.6 billion as at June 30, 2018 to A$38.9 billion as at June 30, 2019, principally due to growth of 10.9% in at-call deposits, offset by run-off in term deposits. The Bank continues to manage customer deposits in line with its lending growth, with the deposits-to-loans ratio of 65.6% at June 30, 2019, within the Bank's target range of 60% to 70%. The Bank's at-call deposits grew 10.9% from A$20.3 billion at June 30, 2018 to A$22.5 billion at June 30, 2019, driven by the increase in digital account openings which were facilitated by continued digitization of deposit banking services and further enablement of self-service functionality. The Bank's term deposits contracted 10.2% from A$18.3 billion at June 30, 2018 to A$16.4 billion at June 30, 2019, reflecting a deliberate reduction in reliance on term deposits due to the significant growth in at-call deposits and reduced funding requirements following subdued credit growth.

The Bank aims to optimize the key channels used to distribute the Bank's products across the physical and digital network with support from the Customer and Digital function. The physical network remains important for acquiring new retail customers and maintaining brand awareness, while also supporting deposit and lending growth. The role of these channels will change as customers expect to complete a wider range of transactions through digital services, which reflects the strategy to invest in the digital platform across the Group. The Customer and Digital function and investment in the digital platform are discussed further under "— Business Strategy".

Business Banking

Business banking has a focus on customers in the agribusiness and commercial (SME) market segments. Business banking offers products through the following core banking businesses:

Agribusiness banking. Providing financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

Commercial (SME) banking. Providing financial solutions and products for small businesses and SMEs.

The Bank's business banking portfolio is predominantly concentrated in Queensland, which represented 71% of the Bank's business banking portfolio as at June 30, 2019. The Bank's commercial (SME) loans were A$6.8 billion as at June 30, 2019, of which 27% were outside of Queensland. The Bank's agribusiness loans were A$4.5 billion as at June 30, 2019, with 33% of lending outside of Queensland.

The tables below illustrate the distribution of business banking loans in the commercial (SME) and agribusiness portfolios, by type of loan and by state as a percentage of the total loans outstanding as at June 30, 2019:

Breakdown of the Bank's commercial (SME) and agribusiness loan portfolios

	Queensland	New South Wales	Other	Total	Total
	%	%	%	%	A$M
Commercial (SME) breakdown					

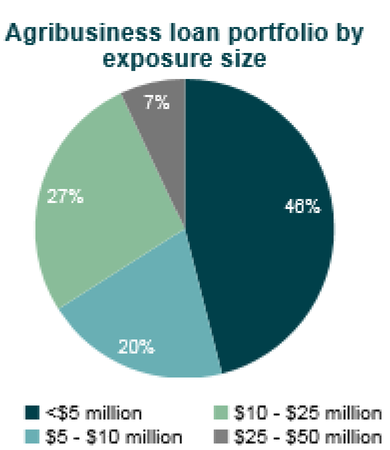
Property Investment	29%	4%	5%	38%	2,600
Hospitality & Accommodation	11%	1%	1%	13%	890
Construction & Development	10%	1%	0%	11%	753
Services (Inc. professional services) [(1)]	10%	5%	3%	18%	1,232
Retail	5%	1%	1%	7%	479
Manufacturing & Mining	2%	1%	1%	4%	273
Other	6%	2%	1%	9%	616
Total %	**73%**	**15%**	**12%**	**100%**	
Total A$M	**4,995**	**1,027**	**821**		**6,843**

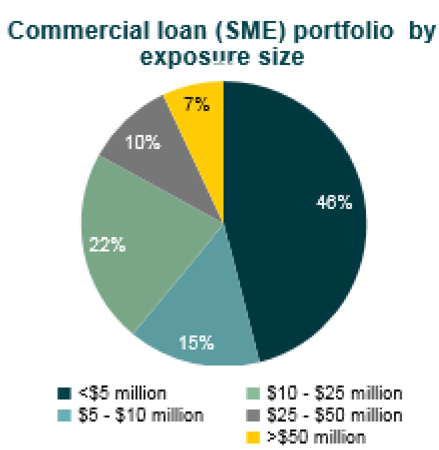
(1) Includes a portion of small business loans, with limits below A$1 million, that are not classified.

	Queensland %	**New South Wales** %	**Other** %	**Total** %	**Total** A$M
Agribusiness breakdown					
Beef	35%	3%	0%	38%	1,706
Grain & Mixed Farming	12%	13%	2%	27%	1,212
Sheep & Mixed Livestock	2%	4%	1%	7%	314
Cotton	5%	4%	0%	9%	404
Sugar	3%	0%	0%	3%	135
Fruit	4%	0%	0%	4%	180
Other	6%	2%	4%	12%	539
Total %	**67%**	**26%**	**7%**	**100%**	
Total A$M	**3,008**	**1,168**	**314**		**4,490**

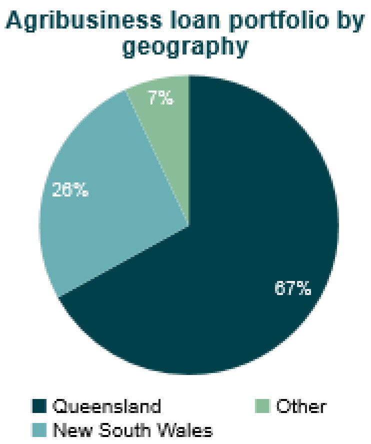
As at June 30, 2019, the Bank's commercial (SME) loan portfolio is predominantly comprised of loans of less than A$5 million, with 46% of customer groups with loans in this range.

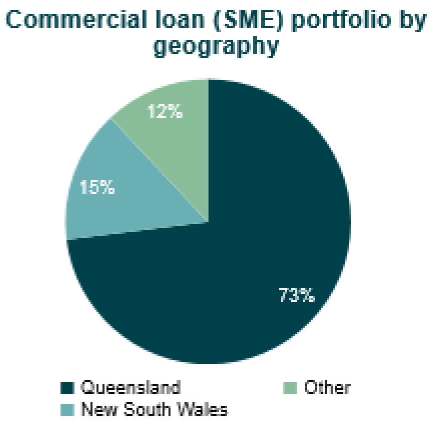
The charts below show the proportion of loans outstanding at various exposure sizes across the Bank's commercial (SME) and agribusiness loan portfolios.





The charts below show the geographic distribution of the Bank's commercial (SME) and agribusiness loan portfolios by state.





Outsourcing Arrangements

The Bank uses third party providers to perform business activities, including the provision and maintenance of an off-site ATM network, data entry and management, loan processing and paper-based clearing and settlement. During the second half of fiscal 2019, no new business activities were outsourced, although a number of existing outsourcing arrangements were renewed and one existing arrangement was transitioned to a new third party provider. Such outsourcing arrangements are intended, as part of the BIP, to reduce the costs of back office operations and to focus the Bank's efforts on modernizing its operational systems and those areas which have a direct impact on revenue generation, efficiency, customer service and satisfaction. The BIP strategic initiative is ongoing and may drive further outsourcing of the Bank's processes to third party providers. To that end, business activities within the Bank are being reviewed to determine their suitability, and the appropriate scale and scope for outsourcing.

Cybersecurity

The Bank maintains several functions dedicated to managing day-to-day cybersecurity operations. These capabilities, technologies and processes are focused on the detection, prevention and response to cybersecurity-related threats and events that may affect the Bank's customers, data and critical systems. The Bank continues to invest in growing and developing this capability through a dedicated program of cybersecurity uplift and enhancement. These capabilities are maintained through a dedicated Security function within the Group's Chief Information Office. The Technology Risk Management Committee provides oversight and visibility of cyber risk and ensures alignment with the Group's risk appetite and broader Enterprise Risk Management Framework. See "Risk Factors — The Bank could suffer losses due to disruptions or failures of information technology systems and may face information security risks, including cyber-attacks" for further information on cyber risk and security threats to the Bank.

Competition

The Australian financial services industry consists of banks, life insurance companies and non-bank financial institutions, which provide a range of financial services including customer deposits, the provision of lending, funds management and life insurance. Four major banking groups dominate the Australian banking environment, namely, Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited and Westpac Banking Corporation. Collectively, these banking groups held 77.69% of the total gross loans and advances in

Australia as at June 30, 2019 (Source: APRA, Monthly Banking Statistics, June 2019) and 80.13% of market share for retail lending as at June 30, 2019 (Source: APRA, Monthly Banking Statistics, June 2019). The Bank's direct competitors also include regional Australian banks: in particular, two key regional banks – Bendigo and Adelaide Bank Limited and Bank of Queensland Limited – as well as smaller regional bank brands owned by one of the four major banking groups. Examples of regional bank brands owned by the four banking groups include St.George Bank and the Bank of Melbourne, both of which are wholly owned by the Westpac Banking Corporation, and Bankwest, which is wholly owned by the Commonwealth Bank of Australia. Mutual banks, building societies and credit unions, as well as other Australian financial institutions, such as Macquarie Bank Limited, ME Bank and AMP Limited, and foreign banks, such as HSBC Bank Australia Limited, Bank of China (Australia) Limited and ING Bank (Australia) Limited, make up the bulk of the remainder of the industry. Emerging challengers in the banking market include fintech companies and non-traditional non-bank entrants, such as businesses in adjacent industries, that are increasingly challenging the market share of incumbent banks, as well as neobanks and digital banks, such as Volt, 86 400, Judo and Up Bank (backed by Bendigo and Adelaide Bank). These companies are offering products and services such as peer-to-peer lending, more flexible payment options, new online marketplace platforms and new payment technologies.

The Bank competes in selected banking markets, namely, mortgages, agribusiness lending and commercial lending (predominantly to SMEs). The Bank has a strong market position in Queensland due to its long heritage in the state with 7.84% market share for retail banking in Queensland as at June 30, 2019 (Source: Roy Morgan, Retail Banking, June 2019). The Bank is significantly smaller than the four major Australian banking groups and has a national market share of approximately 2.04% of gross loans and advances and 1.91% of total deposits as at June 30, 2019 (Source: APRA, Monthly Banking Statistics, June 2019). In contrast, the largest of the four major banking groups, Commonwealth Bank of Australia, has 23.14% market share of gross loans and advances and 24.82% of total deposits (Source: APRA, Monthly Banking Statistics, June 2019).

Each of the four major banking groups offer a full range of financial products and services across Australia through branch networks, electronic channels and third party intermediaries. The regional banks, while smaller than the major banking groups, operate across state borders or nationally, primarily in mortgage lending, supported by non-bank mortgage originators and brokers. There are other non-bank and mutual bank financial intermediaries, such as building societies, credit unions and fintech companies. The banking sector continues to experience a low growth and a low interest rate environment with banks competing heavily on price for new customers to drive growth. Furthermore, prudential regulation and policy changes can have an impact on the competitive environment. See "Risk Factors — The Bank faces intense competition in all aspects of its business" and "Risk Factors — The Bank could be adversely affected by changes in laws, regulations and regulatory policies or by increased compliance requirements as a result of such changes" for further information.

The Bank actively competes for customer deposit funding, which typically represents a more stable source of funds than wholesale funding and, in the case of transaction accounts, is less expensive. The Bank seeks to maintain a deposits-to-loans ratio of between 60% and 70%. As at June 30, 2019, the Bank's deposits-to-loans ratio was 65.6%.

The Bank's deposit offering is underpinned by a full range of savings and transactional deposit accounts, an attractive customer service proposition and competitive pricing points. The Bank predominantly attracts deposits through its loyal customer base in Queensland, its physical network of Stores and Business Centers in other Australian states, and through online and mobile banking channels. The Bank continues to invest in its digital banking capabilities, including through the launch of the Suncorp App in 2018. The Suncorp App brings the Group's network of brands together by integrating banking and insurance functionality and enabling customers to manage their finances and relationship with the Group network.

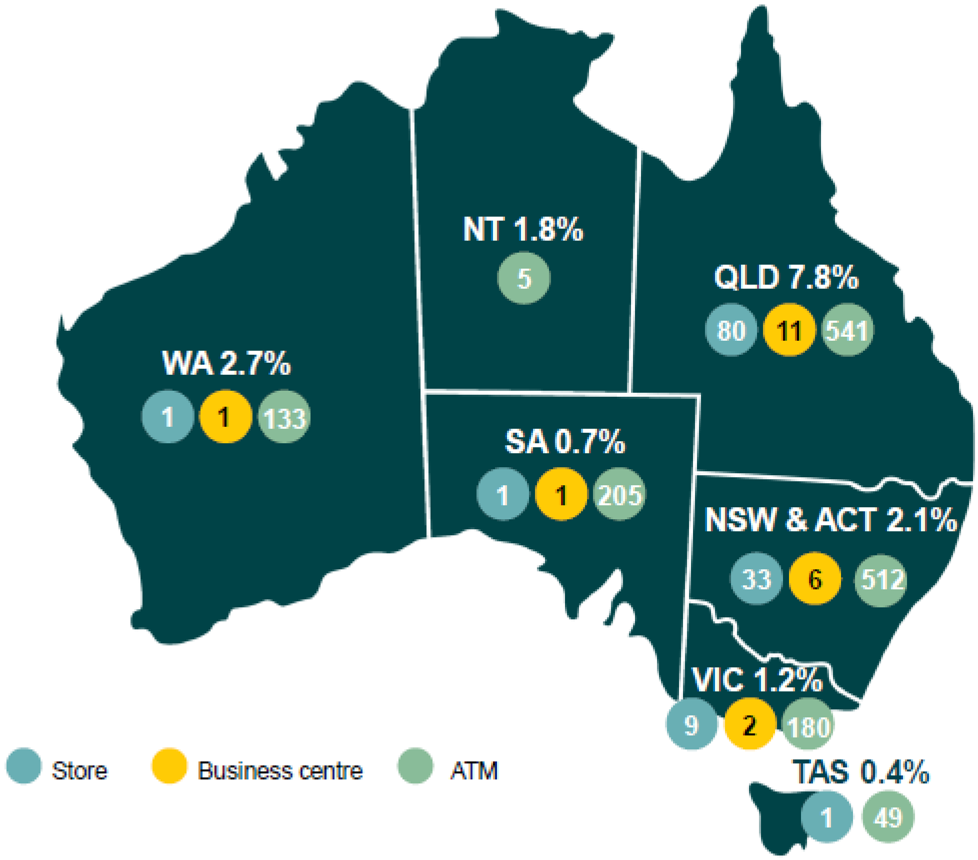
Changes in the financial needs of consumers, deregulation and technological developments have also changed the competitive environment. In particular, the development of electronic delivery channels and the reduced reliance on a physical network facilitate the entry of new players from related industries, such as retailers, telecommunication companies, insurers, supermarkets and utility companies. These competitors are characterized by strong consumer brands, advanced technology and large customer bases. Technological change is also encouraging new entrants with differing combinations of expertise.

Property

In fiscal year 2019, the Customer Marketplace function managed the physical network of Stores and Business Centers, including the ongoing modernization of the Store network and the development of Concept Stores in key locations with high foot traffic. As at June 30, 2019, it operated approximately 146 Stores and Business Centers located primarily in Queensland, New South Wales, Victoria, Western Australia and South Australia. The premises are subject to regular maintenance and upgrading and are considered suitable and adequate for the Bank's current and foreseeable future requirements.

Under the new operating model the Group announced on August 7, 2019, the Australian contact centers, Stores, Business Centers and intermediary distribution teams (including ATMs) are aligning with the Banking and Insurance operations.

The diagram below provides the geographic distribution of the Bank's Store, Business Center and ATM network across Australia.



Employees

The Bank presents its employee numbers in terms of the Group's employee numbers, which it views as having greater relevance given its reliance on shared services from other members of the Group and given the practice of the Group to share facilities (such as branches) and, where appropriate and necessary, to deploy personnel from one part of the Group's business (including the Bank) to another. As at June 30, 2019, approximately 15% of the Group's employees were employed specifically in connection with the Bank's businesses.

The Group's employees (including those of the Bank) are located throughout Australia and New Zealand, predominantly in Queensland, New South Wales, Victoria, Western Australia and South Australia. The table below illustrates the breakdown of the Group's employees as at June 30, 2019, 2018, 2017 and 2016.

Number of full time equivalent roles[(1)] as at June 30,			
2019	**2018**	**2017**	**2016**
13,033	13,309	13,374	13,440

(1) Full time equivalent ("FTE") roles includes all permanent, casual, fixed term contractors and non-payroll contractors minus the total FTE of employees on extended leave.

The Suncorp Group Enterprise Agreement 2015 ("EA") provides minimum terms and conditions of employment that successfully supports the culture that makes Suncorp a great place to work and remains the Group-wide enterprise agreement for all employees. The EA applies across Australia to all employees of the Bank below Executive General Manager positions, and has been developed with the involvement of employees and industry representatives. The EA is complemented by additional employee benefits including learning opportunities, career development, market-competitive remuneration and product discounts.

Legal Matters

The Bank is party to certain claims and litigation in the ordinary course of business. The Bank is not currently involved in any legal proceedings that it believes will result, individually or in the aggregate, in a material adverse effect on the Bank's financial condition or results of operations.

Additional Information

Additional information regarding the Bank's directors, management, executive remuneration, corporate governance policies and risk management policies and framework are included in the Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries posted on the Bank's U.S. Investors' Website.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

You should read the following discussion of the Bank's financial condition and results of operations together with the Bank's financial statements and the notes to such financial statements, incorporated by reference in this Report. The presentation in this section contains forward-looking statements that involve risks, uncertainties and assumptions. See "Special Note Regarding Forward-Looking Statements." The Bank's actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including, but not limited to, those set forth under the caption "Risk Factors" and elsewhere in this Report.

Overview

The Bank was founded in 1902 as the Queensland Agricultural Bank and has provided banking services to individuals, SMEs and agribusinesses in regional communities of Australia for more than 115 years. The Bank is an ADI regulated by APRA and is headquartered in Brisbane, Australia. It is a wholly-owned subsidiary of Suncorp Group Limited, a diversified financial institution and among the top 20 largest companies listed on the ASX with total assets of A$96.2 billion as at June 30, 2019 and a market capitalization of A$17.8 billion (US$12.2 billion) as at September 6, 2019.

The Bank is one of Australia's largest regional banks with A$59.3 billion of gross loans and advances as at June 30, 2019. It services approximately one million individual, agribusiness, and commercial (SME) banking customers, primarily in Queensland. The Bank provides a range of financial services and simple banking products, which include:

- Retail banking, including home and personal loans, savings, investment and transaction accounts, credit cards and foreign currency services;

- Commercial (SME) banking, including small business banking and financial solutions for SMEs; and

- Agribusiness banking, including financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

Following the global financial crisis, the Group undertook a strategic review of its operations and determined to focus on the Bank's core operations in the relatively lower risk lending businesses of retail, agribusiness and commercial (SME).

Basis of Presentation

The Bank has presented its consolidated statements of financial position as at June 30, 2019, 2018, 2017, 2016 and 2015, its consolidated statements of comprehensive income for fiscal 2019, 2018, 2017, 2016 and 2015, and its statements of cash flow for fiscal 2019, 2018, 2017, 2016 and 2015, as they are presented in the Bank's 2019 annual financial statements, 2018 annual financial statements, 2017 annual financial statements and 2016 annual financial statements, as applicable. All other tables (except those relating to the Bank's regulatory capital which are presented in accordance with the Bank's APS 330 reports) are presented on the same basis as the Bank's 2019 annual financial statements, 2018 annual financial statements and 2017 annual financial statements, as applicable, except that, consistent with the Bank's other public disclosures, they do not include the Bank's exposures to, or transactions with, related parties within the Group. For more information, see Note 28 to the Bank's 2019 annual financial statements and "Suncorp-Metway Limited — Relationship between the Group and the Bank."

Principal Factors impacting on the Bank's Results

The Bank is largely impacted by economic conditions in the Australian economy, as described in "Risk Factors — The Bank's business is substantially dependent on the Australian economy, including general economic conditions and other business conditions." In particular, the Bank is sensitive to movements in interest rates, and the current low-interest-rate environment has led to increased competition on pricing for new customers to drive growth. On July 2, 2019, the RBA cut the cash rate by 25 basis points, for the second consecutive month, to the Australian historic low rate of 1.00%, and the current market consensus is that the RBA will likely cut interest rates again before the end of calendar 2019. During fiscal 2019, the BBSW increased significantly before beginning to ease in February 2019; the decline intensified in the months that followed as global central banks (including the RBA) pivoted to a more dovish outlook and the market began to price cash rate reductions into the curve. BBSW is now trading in line with the long term averages of other cash products (Overnight Index Swaps). Increased competition in an environment characterized by record-low interest rates in Australia may create pressure that results in lower net interest margins and profit.

In a declining and/or low interest rate environment, the Bank may experience margin compression from both an inability to reprice lower-cost deposits and transaction accounts and heightened price competition on lending assets. Similarly, yields on the Bank's invested capital may also be impacted. The level of interest rates also has a relationship with the growth of the Australian housing market, consumer demand for deposits and loans and the performance of non-performing loans and impaired assets. Active interest rate management through the use of derivative financial instruments may moderate this impact to some extent. For a further discussion of the Bank's interest rate management activities, see Note 11 to the 2019 annual financial statements.

The Bank's ability to fund its lending through customer and wholesale deposits is key to the success of the Bank's lending business and its financial results. The Bank also relies on credit and capital markets, both domestic and offshore, to fund its lending, and its ability to access these markets may be affected by general financial and economic conditions, as described in "Risk Factors — Adverse credit and capital market conditions." To mitigate the risk of relying on external wholesale markets for funding, the Bank has committed to maintaining a 60% to 70% deposits-to-loans ratio, sourcing deposits from its customers through transaction accounts and term deposits to keep pace with the desired growth in the lending book.

In addition, the Bank's financial results are impacted by the composition of its loan portfolio, in particular, its non-performing loans and impaired assets.

The variable nature of the Australian agribusiness industry, namely its susceptibility to adverse weather conditions such as droughts, floods, bushfires and other natural disasters, is expected to continue to affect the performance of the Bank's agribusiness loan book and its future financial results. The Bank manages such exposures by employing agribusiness specialists with an understanding of the industry, in particular, the risks associated with their region, allowing them to assess a customer's capabilities and needs.

Key Drivers of Business and Trends

The key drivers for the Bank's financial results for fiscal 2019 were as follows:

- Total housing loans increased 0.4% to A$47.8 billion as at June 30, 2019 from A$47.6 billion as at June 30, 2018. This reflected an increasingly competitive and slowing mortgage market, and was further impacted by longer than normal servicing times across the broker network. Elevated servicing times were due to the increased focus on lending serviceability criteria and adoption of additional verification requirements, which have been applied by financial institutions differently across the industry.

- Strong relationships with intermediaries, particularly brokers, remained integral to building a presence outside the Bank's traditional Queensland markets, with approximately 52% of the home lending portfolio outside Queensland as at June 30, 2019. As at June 30, 2019, brokers originated 67% of the total home lending portfolio. See "— Comparison of the first half of fiscal 2019 to the first half of fiscal 2018 — Lending Growth" for further information.

- Total business loans increased 3.6% to A$11.3 billion as at June 30, 2019 from A$10.9 billion as at June 30, 2018. The growth was driven by commercial lending, partially offset by a reduction in agribusiness lending due to the impacts of various weather events including drought and the northern Queensland floods. The Bank continues to exercise appropriate risk selection in agribusiness, with growth targeted towards medium to large family-owned farming operations with mid-size lending requirements in known industries

- Customer funding remained the Bank's core source of funding, with a deposits-to-loans ratio of 65.6% as at June 30, 2019, comfortably within the Bank's 60% to 70% target range. The Bank continued to balance the customer deposit portfolio to reduce reliance on relatively more expensive term deposits, with at-call deposits reflecting a higher proportion of customer funding. The Bank continued to strengthen relationships with customers through investment in initiatives designed to improve digital banking capability over the last two years, including online origination of accounts and self-service functionality. The Bank continued to raise funds in a range of long-term wholesale markets during fiscal 2019, completing 4 benchmark transactions totaling A$3.1 billion under its senior unsecured and covered bond programs and in other various placements.

- The Bank's investment in risk management capability, culture and technology drove better understanding of the underlying risk and profit drivers. This has enabled the Bank to deliver strong credit experience in a low growth, low rate environment through the run-off of poor quality assets and by continuing its relatively prudent lending approach. Impairment loss on financial assets decreased from A$27 million for fiscal 2018 to A$13 million for fiscal 2019. The impairment loss on financial assets represents 2 basis points of gross loans and advances, and was driven by continued sound management and a robust and balanced credit risk management framework. This remains well below the "through-the-cycle" operating range of 10 to 20 basis points. The collective provision remained flat over fiscal 2019 under AASB 9 which applied from July 1, 2018. Specific provision for impairment loss totaled A$5 million for fiscal 2019, due to several business customers either recovering to performing status or successfully selling assets to repay debt. This reduction in specific provisions for impairment loss reflects an enhanced focus on watchlist and business customer support processes in detecting early signs of financial stress and working with customers to support them through challenges to improve customer outcomes.

- Operating expenses decreased 3.3% from A$720 million for fiscal 2018 to A$696 million for fiscal 2019. This was primarily due to operating expense benefits of A$45 million realized through BIP, offset in part by higher regulatory and compliance costs and higher depreciation related to digital capabilities including digital wallets and near real-time payments, and costs relating to the core banking platform. Regulatory costs are expected to remain elevated in fiscal year 2020, although such costs are expected to deliver improved outcomes for customers and be partially offset by BIP benefits.

- The cost-to-income ratio for fiscal 2019 was 57.2% compared with 58.0% for fiscal 2018, primarily driven by lower operating expenses.

The key drivers for the Bank's financial results for fiscal 2018 and 2017 were as follows:

- Lending growth was achieved during fiscal 2018 and 2017. This was primarily due to:
  - growth in residential mortgage lending as the Bank continued its strategy of targeting owner-occupiers and other borrowers who are considering the purchase of a financial product or service. The Bank continued to focus on maintaining margin and credit quality over lending growth. The Bank remained focused on the quality of the portfolio by concentrating on the origination of sub-80% LVR loans, driving better quality business and more optimal use of capital;
  - continued focus on further increasing the Bank's brand presence in the Queensland market and expanding outside of Queensland, particularly in New South Wales and Victoria through its interstate Stores and the intermediated channel;
  - targeted new lending in commercial (SME) loan portfolio, primarily due to the Bank's continued focus on considered and disciplined segment diversification within its risk appetite while ensuring there is an appropriate return. The above-system result in the commercial (SME) portfolio was driven by deliberate management action to achieve targeted growth within selected well-known market segments to balance the total lending portfolio mix. Prudent growth was achieved in development finance, services businesses and property investment located in Eastern capital cities. Commercial growth was in the context of a conservative risk appetite (related to geographical diversity, industry, security, and customer profile), combined with experienced relationship management able to efficiently operate within these risk settings, including return on equity and risk-adjusted return on capital targets. Despite the strategic initiative, the segment breakdown has not shifted significantly over the period because it will take some time for prudent growth in targeted segments to have an impact on overall portfolio distribution; and
  - cautious and selective growth in the agribusiness loan portfolio in light of the variable weather conditions during 2018 and 2017, supported by the Bank's long heritage and strength of brand in the agribusiness sector across the Bank's core market in Queensland and, to a lesser extent, New South Wales.

- An increase in customer funding was achieved during fiscal 2018 and 2017, primarily as a result of growth in the retail deposit base across Queensland and New South Wales.

- Impairment loss on loans and advances decreased during fiscal 2017, due to improvements in lending asset quality and the partial release of a collective provision relating to the Bank's agribusiness lending raised in calendar 2014. However, impairment loss on loans and advances increased during fiscal 2018, predominantly driven by a small number of medium sized business lending exposures. The Bank continues to maintain what it believes to be adequate provisioning for stress across the

Bank's agribusiness loan portfolio in response to ongoing drought conditions and a subdued rural property market, particularly in Queensland.

- Operating expenses increased during fiscal 2018, due to investment in the acceleration of the Marketplace strategy, digital payments and self-service capability, infrastructure and modernization of the store network, investment in the BIP, increased marketing investment to support growth, and other expenses, including an increase in costs associated with regulatory compliance and inquiry responses, principally relating to the Royal Commission and a number of regulatory projects. Operating expenses decreased during fiscal 2017, due to disciplined cost management in the low growth, low margin environment. As a result, the cost-to-income ratio increased from 52.9% for fiscal 2017 to 58.0% for fiscal 2018.

Significant and Critical Accounting Policies

The preparation of the Bank's financial statements requires its management to exercise judgment and make estimates and assumptions that affect the application of its accounting policies and the amounts reported in the financial statements. A description of the Bank's significant accounting policies is contained in Note 31 to its 2019 annual financial statements and Note 31 to its 2018 annual financial statements and in "Financial Information Presentation."

While the Bank regards all of its significant accounting policies as important to consider when evaluating its financial statements, the Bank has identified three accounting policies as particularly involving critical accounting estimates and requiring management's exercise of judgments, namely: (i) those relating to the specific and collective provisions for impairment, which is discussed in Note 31.11 to the Bank's 2019 annual financial statements and Note 31.11 to the Bank′s 2018 annual financial statements, (ii) the valuation of financial instruments and fair value hierarchy disclosures, which is discussed in Note 23.1 to the Bank's 2019 annual financial statements and Note 23.1 to the Bank's 2018 annual financial statements and (iii) contingent assets and liabilities, which is discussed in Note 30 to the Bank's 2019 annual financial statements and Note 30 to the Bank's 2018 annual financial statements.

Results of Operations

The following table presents the Bank's consolidated results of operations from continuing operations for the periods presented:

	Fiscal			
	2019	**2019**	**2018**	**2017**
	(US$m)		*(A$m)*	
Net interest income	**815**	**1,163**	**1,181**	**1,131**
Other operating income	38	54	60	76
Total net operating income	**853**	**1,217**	**1,241**	**1,207**
Operating expenses	(488)	(696)	(720)	(638)
Impairment loss on financial assets	(9)	(13)	(27)	(7)
Profit before income tax	**356**	**508**	**494**	**562**
Income tax expense	(107)	(153)	(148)	(168)

	Fiscal			
	2019	2019	2018	2017
	(US$m)		*(A$m)*	
Profit for the period	**249**	**355**	**346**	**394**

(1) For purposes of this Report, currencies have been translated at the exchange rate on June 28, 2019 of US$0.7009 per A$1.00.

Comparison of fiscal 2019 to fiscal 2018

	Fiscal 2019	Fiscal 2018	Percentage Change
	(A$m)		*(%)*
Net interest income	**1,163**	**1,181**	(1.5)
Other operating income			
Net banking fee and commission income	**35**	42	(16.7)
Net gains /(losses) on:			
Trading securities at fair value through profit and loss	**2**	5	(60.0)
Financial liabilities at fair value through profit and loss	(1)	-	n/a
Derivative financial instruments at fair value through profit and loss	**12**	5	140.0
Other revenue	**6**	8	(25.0)
Other operating income	**54**	**60**	(10.0)
Total net operating income	**1,217**	**1,241**	(1.9)
Operating expenses	**(696)**	**(720)**	(3.3)
Profit before impairment loss on financial assets	**521**	**521**	-
Impairment loss on financial assets	**(13)**	**(27)**	(51.9)
Profit before income tax	**508**	**494**	2.8

Overview. Profit before income tax increased 2.8% from A$494 million for fiscal 2018 to A$508 million for fiscal 2019. The increase was driven by lower impairment losses and lower expenses, which were offset in part by lower net operating income. Growth in gross loans and advances of 1.0% from A$58.7 billion as at June 30, 2018 to A$59.3 billion as at June 30, 2019 was due to growth in commercial lending and to a lesser extent growth in home lending.

Drivers of the Bank's profit before tax for fiscal 2019 included:

- Total housing loans increased 0.4% to A$47.8 billion for fiscal 2019, from A$47.6 billion for fiscal 2018. This result reflected a very competitively priced and moderating credit market, and was further impacted by longer than normal servicing times across the broker network. Elevated servicing times were due to the increased focus on lending serviceability criteria and adoption of additional verification requirements, which have been applied by financial institutions differently across the industry. Maintaining strong relationships with intermediaries remains integral to building a presence outside the Bank's traditional Queensland markets, with approximately 52% of the home lending portfolio outside Queensland as at June 30, 2019.

- Total business loans increased 3.6% from A$10.9 billion as at June 30, 2018 to A$11.3 billion as at June 30, 2019. Growth in business loans during fiscal 2019 was driven by commercial lending, partially offset by a reduction in agribusiness lending due to the impacts of various weather events including drought and the northern Queensland floods. The commercial (SME) portfolio increased by 6.9% to A$6.8 billion over fiscal 2019. Commercial (SME) lending growth was achieved within conservative risk appetite settings, which consider geographical diversity, industry, security, and customer profile. The agribusiness portfolio decreased 1.0% to A$4.5 billion over fiscal 2019. The agribusiness portfolio was impacted by prevailing drought conditions, floods in Northern Queensland, seasonal trends and the pay down of debt by customers. The Bank continues to exercise appropriate risk selection in agribusiness, with growth targeted towards medium to large family-owned farming operations with mid-size lending requirements in known industries.

- Total customer funding increased 0.9% from A$38.6 billion as at June 30, 2018 to A$38.9 billion as at June 30, 2019, principally due to growth in customer at-call deposits driven by investment in new product offerings, enhanced digital capabilities and functionality including the introduction of digital wallets and customer self-service. The Bank's deposits-to-loans ratio was 65.6% as at June 30, 2019, compared with 65.7% as at June 30, 2018, and was within the Bank's target range of 60% to 70% throughout fiscal 2019. The Bank exercised its ability to fund in a range of long-term wholesale markets during fiscal 2019, completing 4 benchmark transactions totaling A$3.1 billion under its senior unsecured and covered bond programs and in other various placements. The Bank continued to balance the customer deposit portfolio to reduce reliance on relatively more expensive term deposits, with at-call deposits reflecting a higher proportion of customer funding.

- Net interest income decreased 1.5% from A$1,181 million for fiscal 2018 to A$1,163 million for fiscal 2019, primarily driven by compressed net interest margin. Net interest margin decreased to 1.79% for fiscal 2019 from 1.84% for fiscal 2018, driven by positive impacts from the growth in at-call deposits being offset by the elevation of the BBSW for much of fiscal 2019 and an increase in mortgage discounting to retain customers.

- Other operating income decreased 10% from A$60 million for fiscal 2018 to A$54 million for fiscal 2019, reflecting a reduction in net banking fee income and commission following changes introduced in fiscal 2018 to reduce certain customer fees to improve customer experience and meet ongoing demand for low fee banking products. The trend of declining fee collection rates is in line with industry and likely to be ongoing.

- Operating expenses decreased 3.3% from A$720 million for fiscal 2018 to A$696 million for fiscal 2019. This was primarily due to operating expense benefits of A$45 million realized through BIP, offset in part by higher regulatory and compliance costs and higher depreciation related to digital capabilities including digital wallets and near real-time payments, and the core banking platform costs. Regulatory costs are expected to remain elevated in fiscal year 2020, however will deliver improved outcomes for customers and will be partially offset by BIP benefits.

- Impairment loss on financial assets decreased from A$27 million for fiscal 2018 to A$13 million for fiscal 2019. The impairment loss on loans and advances represents 2 basis points of gross loans and advances, and was driven by continued sound management and a robust and balanced credit risk management framework. The result remains well below the "through-the-cycle" operating range of 10 to 20 basis points. The collective provision remained flat over fiscal 2019 under AASB 9 which applied from July 1, 2018. Specific provision for impairment loss totaled A$5 million for fiscal 2019, due to several business customers either recovering to performing status or successfully selling assets to repay debt. This reduction in specific provisions for impairment loss reflects an enhanced focus on watchlist and business customer support processes in detecting early signs of financial stress and working with customers to support them through challenges to improve customer outcomes.

The Bank's consolidated effective tax rate for fiscal 2019 (as part of the Suncorp Group Limited consolidated tax group) was 30.1%, compared with 30.0% for fiscal 2018.

Lending Growth. The Bank's gross loans and advances, including securitized assets, grew 1.0% to A$59.3 billion as at June 30, 2019, compared with A$58.7 billion as at June 30, 2018.

	As at June 30,		Percentage Change
	2019	**2018**	
	(A$m)		*(%)*
Housing loans	40,922	41,159	(0.6)
Securitized housing loans and covered bonds	6,889	6,445	6.9
Total housing loans	**47,811**	**47,604**	0.4
Consumer loans	149	175	(14.9)
Retail loans	**47,960**	**47,779**	0.4
Commercial (SME)	6,843	6,402	6.9
Agribusiness	4,490	4,535	(1.0)
Total business loans	**11,333**	**10,937**	3.6
Total lending	**59,293**	**58,716**	1.0
Other lending(1)	3	12	(75.0)
Gross loans and advances	**59,296**	**58,728**	1.0
Provision for impairment	(142)	(130)	9.2
Total loans and advances	**59,154**	**58,598**	0.9
Credit risk-weighted assets	**27,968**	**27,234**	2.7
Geographical breakdown – Total lending			
Queensland	31,600	31,005	1.9
Outside of Queensland	27,693	27,711	(0.1)
New South Wales	15,858	15,624	1.5
Victoria	5,920	6,079	(2.6)
Western Australia	3,524	3,587	(1.8)
South Australia and other	2,391	2,421	(1.2)
Total lending	**59,293**	**58,716**	1.0

(1) Other lending are primarily collateral deposits provided to derivative counterparties.

Retail loans increased 0.4% from A$47.8 billion as at June 30, 2018 to A$48.0 billion as at June 30, 2019. Growth reflected a very competitively priced and moderating credit market, and was further impacted by longer than normal servicing times across the broker network. Elevated servicing times were due to the increased focus on lending serviceability criteria and adoption of additional verification requirements, which have been applied by financial institutions differently across the industry. In response, the Bank focused on implementing initiatives to improve operational efficiencies, supported by competitive product offerings. Market dynamics will continue to be impacted by a slower property market and industry-wide implementation of tighter lending criteria. Home lending receivables (excluding securitized housing loans and covered bonds) decreased 0.6% from A$41.2 billion as at June 30, 2018 to A$40.9 billion as at June 30, 2019. Maintaining strong relationships with intermediaries, particularly brokers, remains integral to building a presence outside the Bank's traditional Queensland markets, with approximately 52% of the home lending portfolio outside Queensland as at June 30, 2019. The Bank continues to focus on meeting customer needs through the channel customers choose, whether they choose to transact directly or through a broker. Approximately 67% of the Bank's total housing loans as at June 30, 2019, were originated through intermediaries, including brokers. For customers that prefer to interact face-to-face with lending specialists, the Bank has enhanced its direct lending team with a greater focus on performance management, productivity and pipeline management. The Bank also maintains relationships with preferred loan referrers such as Nexus and Pexa, to source quality customer leads and support productivity improvements.

Business loans increased 3.6% from A$10.9 billion as at June 30, 2018 to A$11.3 billion as at June 30, 2019. Growth in business loans during fiscal 2019 was driven by targeted growth within selected well-known market segments, to balance the total lending portfolio mix, while ensuring there is an appropriate return. The commercial (SME) portfolio increased by 6.9% from A$6.4 billion as at June 30, 2018 to A$6.8 billion as at June 30, 2019. Commercial (SME) lending growth was achieved within conservative risk appetite settings, which consider geographical diversity, industry, security, and customer profile. The portfolio remained relatively well-diversified across industries. See "Suncorp-Metway-Limited — Business Banking" for a breakdown of the portfolio. As at June 30, 2019, 73% of the commercial (SME) loan portfolio was located within Queensland. The Bank's agribusiness loan portfolio decreased 1.0% to A$4.5 billion during fiscal 2019. The agribusiness portfolio was primarily impacted by prevailing drought conditions and the floods in Northern Queensland. The Bank continues to exercise appropriate risk selection in agribusiness, with growth targeted towards medium to large family-owned farming operations with mid-size lending requirements in known industries. A low Australian dollar and elevated commodity prices provides a more favorable operating environment for agribusiness customers, and with the pay down of debt and improvements in risk selection and risk positioning, the Bank believes that the agribusiness portfolio is more favorably positioned to pursue growth, relative to previous periods of prolonged dry conditions. The Bank continues to utilize a collaborative customer approach to supporting customers, employees and communities under stressed conditions and continues to monitor customers closely for any signs of credit stress. A clear risk appetite continues to guide decisions around new business.

Net Interest Income. Net interest income decreased 1.5% from A$1,181 million for fiscal 2018 to A$1,163 million for fiscal 2019, primarily driven by a compressed net interest margin.

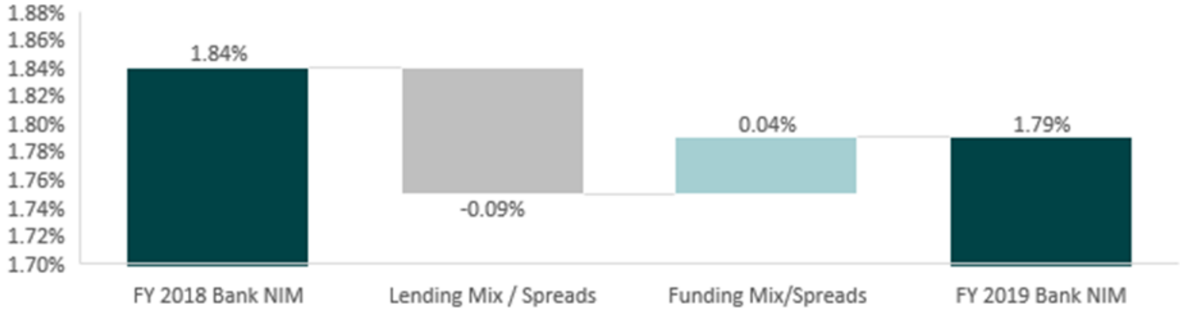
	Fiscal		**Percentage**
	2019	**2018**	**Change**
	(A$m)		*(%)*
Net interest income			
Interest income	2,547	2,528	0.8
Interest expense	(1,384)	(1,347)	2.7
Total net interest income	**1,163**	**1,181**	(1.5)

Net interest margin decreased to 1.79% for fiscal 2019 from 1.84% for fiscal 2018, primarily driven by positive impacts from the growth in at-call deposits being offset by a sustained elevation of the BBSW for much of fiscal 2019 and an increase in mortgage discounting to retain customers.

	Fiscal	
	2019	**2018**
	(%)	
Net interest margin(1)		
Interest-earning assets	1.79	1.84
Lending assets	1.98	2.07

(1) Based on average statement of financial position.

The table below illustrates the movements of the Bank's net interest margin from 1.84% for fiscal 2018 to 1.79% for fiscal 2019.



The table below illustrates the Bank's average statement of financial position and annualized average interest rate, as broken down by asset type for fiscal 2019 and 2018.

	Fiscal 2019			Fiscal 2018		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(A$m)		*(%)*	*(A$m)*		*(%)*
Assets						
Interest earning assets						
Trading and investment securities	6,230	164	2.6	7,009	180	2.6
Gross loans and advances	58,721	2,383	4.1	57,171	2,348	4.1
Total interest earning assets	**64,951**	**2,547**	**3.9**	**64,180**	**2,528**	**3.9**
Non-interest earning assets						
Other assets (including loan provisions)	1,212			1,189		
Total non-interest earning assets	1,212			1,189		
Total assets	**66,163**			**65,369**		
Liabilities						
Interest-bearing liabilities						
Customer deposits	38,621	716	1.9	37,330	689	1.9
Wholesale liabilities	21,990	639	2.9	22,333	625	2.8
Subordinated loans	699	29	4.1	742	33	4.5
Total interest-bearing liabilities	**61,310**	**1,384**	**2.3**	**60,405**	**1,347**	**2.2**
Non-interest-bearing liabilities						
Other liabilities	669			722		
Total non-interest-bearing liabilities	669			722		
Total liabilities	**61,979**			**61,127**		
Average shareholders' equity	**4,184**			**4,242**		
Analysis of interest margin and spread						
Interest earning assets	64,951	2,547	3.9	64,180	2,528	3.9
Interest-bearing liabilities	61,310	1,384	2.3	60,405	1,347	2.2
Net interest spread			1.7			**1.7**
Interest-earning assets net interest margin	**64,951**	**1,163**	**1.8**	**64,180**	**1,181**	**1.8**
Lending assets net interest margin	**58,721**	**1,163**	**2.0**	**57,171**	**1,181**	**2.1**

	Fiscal 2019	Fiscal 2018	Percentage Change
	(A$m)		(%)
Other operating income			
Net banking fee and commission income	35	42	(16.7)
Net gains /(losses) on:			
Trading securities at fair value through profit and loss	2	5	(60.0)
Financial liabilities at fair value through profit and loss	(1)	-	n/a
Derivative financial instruments at fair value through profit and loss	12	5	140.0
Other revenue	6	8	(25.0)
Other operating income	**54**	**60**	(10.0)

Other operating income. Other operating income decreased 10% from A$60 million for fiscal 2018 to A$54 million for fiscal 2019, reflecting a reduction in net banking fee income and commission following changes introduced in fiscal 2018 to reduce certain customer fees to improve customer experience and meet ongoing demand for low fee banking products. The trend of declining fee collection rates is in line with industry and likely to be ongoing.

Operating Expenses. Operating expenses decreased 3.3% from A$720 million for fiscal 2018 to A$696 million for fiscal 2019. This was primarily due to operating expense benefits of A$45 million realized through BIP, offset in part by higher regulatory and compliance costs and higher depreciation related to digital capabilities including digital wallets and near real-time payments, and the core banking platform costs. Regulatory costs are expected to remain elevated in fiscal 2020, although such costs are expected to deliver improved outcomes for customers and will be partially offset by BIP benefits. The cost-to-income ratio for fiscal 2019 was 57.2% compared with 58.0% for fiscal 2018.

Loan Impairment. Impairment loss on financial assets decreased from A$27 million for fiscal 2018 to A$13 million for fiscal 2019. Impairment loss on loans and advances represents 2 basis points of gross loans and advances, and was driven by continued sound management and a robust and balanced credit risk management framework. The result remains well below the “through-the-cycle” operating range of 10 to 20 basis points. The collective provision remained flat over fiscal 2019 under AASB 9 which applied from July 1, 2018. Specific provision for impairment loss totaled A$5 million for fiscal 2019, due to several business customers either recovering to performing status or successfully selling assets to repay debt. This reduction in specific provisions for impairment loss reflects an enhanced focus on watchlist and business customer support processes in detecting early signs of financial stress and working with customers to support them through challenges to improve customer outcomes.

	As at June 30, 2019	As at June 30, 2018	Percentage Change
	(A$m)		(%)
Gross balances of impaired loans			
Retail	56	37	51.4
Agribusiness	32	51	(37.3)
Commercial (SME)	58	56	3.6
Gross impaired assets	146	144	1.4
Specific provision for impairment	(31)	(39)	(20.5)
Net impaired assets	**115**	**105**	9.5

	As at June 30,		Percentage Change
	2019	2018	
	(A$m)		(%)
Size of gross individual impaired assets			
Less than one million	46	32	43.8
Greater than one million but less than ten million	85	97	(12.4)
Greater than ten million	15	15	-
Gross impaired assets	**146**	**144**	1.4
Past due loans not shown as impaired assets			
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognized in the contribution to profit. The value of past due loans equals	551	541	1.8
Gross non-performing loans	**697**	**685**	1.8
Gross impaired assets as a percentage of gross loans and advances(1)	0.25%	0.25%	
Gross non-performing loans as a percentage of gross loans and advances(2)	1.18%	1.17%	

	Fiscal		Percentage Change
	2019	2018	
	(A$m)		(%)
Analysis of movements in gross impaired assets			
Balance at the beginning of the year	**144**	**173**	(16.8)
Recognition of new impaired assets	84	104	(19.2)
Increases in previously recognized impaired assets	5	4	25.0
Impaired assets written off/sold during the year	(9)	(23)	(60.9)
Impaired assets which have been reclassified as performing assets or repaid	(78)	(114)	(31.6)
Balance at the end of the financial year	**146**	**144**	1.4

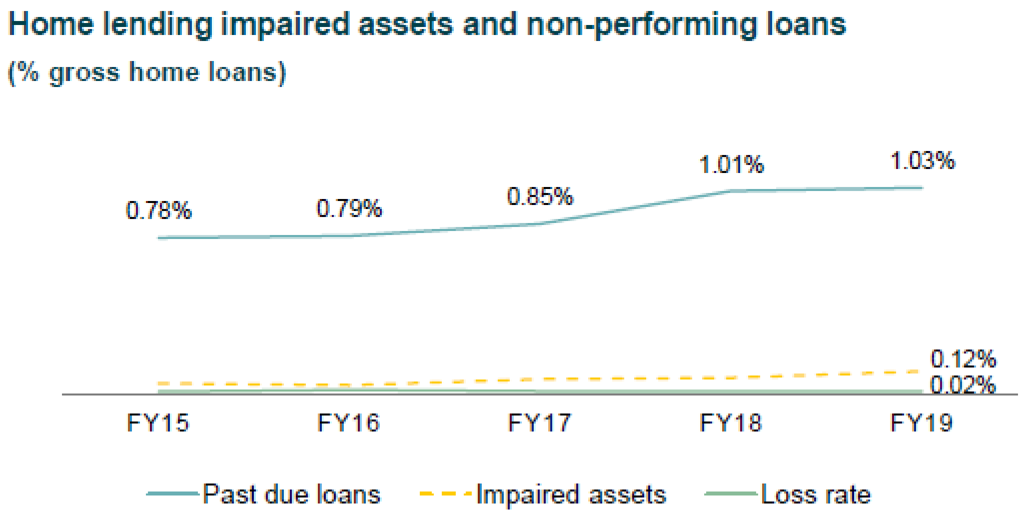
(1) Calculated as (gross impaired assets) / (gross loans and advances) for the end of the financial year.

(2) Calculated as (gross non-performing loans) / (gross loans and advances) for the end of the financial year.

Gross impaired assets. Gross impaired assets increased 1.4% from A$144 million as at June 30, 2018 to A$146 million as at June 30, 2019 (representing 0.25% of gross loans and advances), primarily due to increases in retail and to a lesser extent commercial impaired loans, partially offset by a reduction in impaired agribusiness loans. Retail impaired assets increased by A$19 million over fiscal 2019 to A$56 million, largely driven by a review of longer dated arrears and the application of more conservative property valuations in line with market trends.

Past due loans not shown as impaired. Total home lending past due loans as a percentage of home loans increased from 1.01% as at June 30, 2018 to 1.03% as at June 30, 2019, reflecting the impact of the North Queensland floods as well as the usual cycling of accounts through arrears. Levels were also controlled through changes implemented to hardship and recoveries processes in the first half of fiscal 2019 to better manage arrears and support customers. The impact of the severe weather events experienced in fiscal 2019 is expected to improve in fiscal 2020, as past experience with flood events suggests the majority of customers successfully recover from arrears after approximately six months.

The table below illustrates home lending quality as a percentage of gross home loans:



A breakdown of collective and specific provisions as at June 30, 2019 and 2018 are as follows:

	Fiscal		Percentage Change
	2019	**2018**	
	(A$m)		*(%)*
Collective provision			
Balance at the beginning of the financial year	91	96	(5.2)
AASB 9 transition adjustments[1]	20	-	n/a
Write-back against impairment losses	-	(5)	n/a
Balance at the end of the financial year	**111**	**91**	22.0
Specific provision[2]			
Balance at the beginning of the financial year	39	44	(11.4)
Transfers, new and increased individual provisioning	16	37	(56.8)
Write-back of provisions no longer required	(12)	(15)	(20.0)
Specific provisions written-off	(8)	(23)	(65.2)
Unwind of discount	(4)	(4)	-
Balance at the end of the financial year	**31**	**39**	(20.5)
Total provision for impairment – Banking activities	**142**	**130**	9.2
Equity reserve for credit losses[3]			
Balance at the beginning of the financial year	88	82	7.3
AASB 9 transition adjustments	9	-	n/a
Transfer from / (to) retained earnings	7	6	16.7
Balance at the end of the financial year	**104**	**88**	18.2

	Fiscal 2019	Fiscal 2018	Percentage Change
Pre-tax equivalent coverage	**149**	**126**	18.3
Total provision for impairment and equity reserve for credit losses – Banking activities	**291**	**256**	13.7

	As at June 30, 2019	As at June 30, 2018
Provision for impairment expressed as a percentage of gross loans and advances are as follows:	%	
Collective provision	0.19	0.15
Specific provision	0.05	0.07
Total provision	0.24	0.22
Equity reserve for credit losses	0.25	0.21
Total provision and equity reserve for credit losses	**0.49**	**0.43**

(1) As reflected in the table above, the transition from AASB 139 to AASB 9 resulted in a net A$20 million increase in the collective provision at July 1, 2018, recorded in opening retained earnings. This was a result of:

- A$4 million reduction in the retail lending collective provision arising from the adoption of a revised Loss Given Default ("LGD") model, which better reflects the link between LGD and current and expected collateral prices; combined with a review of other inputs into the assessment process not derived directly from the models. These changes offset the other impacts of AASB 9, including the introduction of lifetime provisions for Stage 2 exposures and the introduction of forward-looking macroeconomic assumptions. Upon occurrence of a significant increase in credit risk ("SICR") an exposure moves from Stage 1 to Stage 2 and provisions increase from a 12-month Expected Credit Losses ("ECL") to a lifetime ECL (i.e. all losses that are expected to occur over the life of the loan). SICR is determined based on a deterioration in the loan's master rating scale level, which is directly related to probability of default;
- A$24 million increase in the non-retail lending collective provision due to the adoption of the revised LGD model, together with the impact of introducing staging, forward-looking macroeconomic assumptions and the review of other inputs into the assessment process not derived directly from the models.

Excluding the transitional impact to AASB 9, the collective provision ended fiscal 2019 flat. However, volatility associated with the application of AASB 9 was evidenced during fiscal 2019 by several offsetting factors including movements in risk profiles, the stage migration of exposures in line with credit quality, falls in the housing price index and updated macroeconomic forecasts.

(2) The specific provision reduced by A$8 million over fiscal 2019, primarily driven by a large agribusiness recovery.

(3) The equity reserve for credit loss comprises transfers from retained profits required where the Bank's specific and collective provisions for impairment are insufficient relative to APRA's provisioning requirements. While this disclosure is additional to the requirements of AASBs and IFRS, common practice in the Australian reporting environment is to disclose the equity reserve for credit loss and associated ratios as presented in the table above.

A breakdown of gross loans and advances, impaired assets and specific provisions as at June 30, 2019 and 2018 are as follows:

	As at June 30, 2019 (1)			As at June 30, 2018 (1)		
	(A$m)					
	Gross Loans and Advances	**Impaired Assets**	**Specific Provisions**	**Gross Loans and Advances**	**Impaired Assets**	**Specific Provisions**
Agribusiness	4,022	32	7	4,014	48	17
Construction and development	888	6	2	732	1	1
Financial services	87	-	-	92	-	-
Hospitality	972	26	7	986	26	6
Manufacturing	261	4	-	234	2	-
Professional services	310	1	1	278	1	1
Property investment	2,774	2	2	2,448	8	3
Real estate mortgage	47,793	56	8	47,611	38	5
Personal	154	-	-	182	-	-
Other commercial and industrial	2,035	19	4	2,151	20	6
Total	**59,296**	**146**	**31**	**58,728**	**144**	**39**

(1) The table as at June 30, 2019 and 2018 has been prepared in accordance with the Bank's APS 330 as in effect as of June 30, 2019 and 2018.

Comparison of fiscal 2018 to fiscal 2017

	Fiscal		Percentage Change
	2018	2017	
	(A$m)		(%)
Net interest income	**1,181**	**1,131**	4.4
Other operating income			
Net banking fee and commission income	42	64	(34.4)
Net gains /(losses) on:			
Trading securities	5	3	66.7
Financial liabilities designated at fair value through the profit and loss	-	1	n/a
Derivative and other financial instruments	5	3	66.7
Other revenue	8	5	60.0
Other operating income	**60**	**76**	(21.1)
Total net operating income	**1,241**	**1,207**	2.8
Operating expenses	**(720)**	**(638)**	12.9
Profit before impairment loss on financial assets	**521**	**569**	(8.4)
Impairment loss on financial assets	(27)	(7)	285.7
Profit before income tax	**494**	**562**	(12.1)

Overview. Profit before income tax decreased 12.1% from A$562 million for fiscal 2017 to A$494 million for fiscal 2018. The decrease was primarily driven by higher operating expenses arising from investment in the acceleration of the Marketplace strategy, digital payments and self-service capability, infrastructure and modernization of the store network, investment in the BIP, increased marketing investment to support growth, and other expenses, including an increase in costs associated with regulatory compliance and inquiry responses. A A$20 million increase in impairment loss on loans and advances in fiscal 2018 also adversely impacted the profit before tax, however remain low compared to historical levels and below the "through the cycle" operating range. Growth in gross loans and advances of 6.1% from A$55.3 billion as at June 30, 2017, to A$58.7 billion as at June 30, 2018 was due to increased housing and business lending growth, which are discussed further below.

Drivers of the Bank's profit before tax for fiscal 2018 included:

- Total housing loans increased 6.2% to A$47.6 billion as at June 30, 2018, from A$44.8 billion as at June 30, 2017. This reflected an increased focus on process optimization and customer retention and was complemented by competitive offerings and stronger broker partnerships. Maintaining strong relationships with intermediaries, particularly brokers, remains integral to building a presence outside the Bank's traditional Queensland markets, with approximately 51% of the home lending portfolio outside Queensland as at June 30, 2018.

- Total business loans increased 7.0% from A$10.2 billion as at June 30, 2017 to A$10.9 billion as at June 30, 2018. Growth in business loans during fiscal 2018 was driven by deliberate management action to achieve targeted growth within selected well-known market segments, to balance the total lending portfolio mix, while ensuring there is an appropriate return. The commercial (SME) portfolio increased by 11.7% to A$6.4 billion over fiscal 2018. Commercial (SME) lending growth was achieved within conservative risk appetite settings, which consider geographical diversity, industry, security, and customer profile. Prudent growth was achieved in property investment, small businesses, and development finance located in Eastern capital cities. The agribusiness portfolio increased 0.8% to A$4.5 billion over fiscal 2018, focused on medium to large family-owned farming operations with mid-size lending requirements. Growth was balanced in light of the variable weather conditions during fiscal 2018 and 2017.

- Total customer funding increased 4.7% from A$36.8 billion as at June 30, 2017 to A$38.6 billion as at June 30, 2018, principally due to growth in customer at-call deposits driven by investment in new product offerings, enhanced digital capabilities and functionality including the introduction of digital wallets. The Bank's deposits-to-loans ratio was 65.7% as at June 30, 2018, compared with 66.6% as at June 30, 2017, and was within the Bank's target range of 60% to 70% throughout fiscal 2018. The Bank exercised its ability to fund in a range of long-term wholesale markets during fiscal 2018, completing two Residential Mortgage-backed Security transactions totaling A$2.8 billion, senior unsecured and covered bond programs, and other various placements. The Bank continued to balance the customer deposit portfolio to reduce reliance on relatively more expensive term deposits, with at-call deposits reflecting a higher proportion of customer funding.

- Net interest income grew 4.4% from A$1,131 million for fiscal 2017 to A$1,181 million for fiscal 2018, primarily driven by increased lending volumes. Net interest margin increased to 1.84% for fiscal 2018 from 1.83% for fiscal 2017, reflecting a period of sound lending growth, proactive term deposit repricing and portfolio mix benefits following growth in at-call customer deposits, partially offset by competitive market pricing pressures, an increase in existing customers converting to principal and interest repayments and an elevated BBSW.

- Other operating income decreased 21.1% from A$76 million for fiscal 2017 to A$60 million for fiscal 2018, primarily due to a reduction in certain customer fees to improve the customer experience and meet ongoing demand for low fee banking products.

- Operating expenses increased 12.9% from A$638 million for fiscal 2017 to A$720 million for fiscal 2018. This was primarily due to investment in the acceleration of the Marketplace strategy, digital payments and self-service capability, infrastructure and modernization of the Store network, investment in the BIP, increased marketing investment to support growth, and other expenses, including an increase in costs associated with regulatory compliance and inquiry responses. As a result, the cost-to-income ratio for fiscal 2018 was 58.0% compared with 52.9% for fiscal 2017.

- Impairment loss on financial assets increased from A$7 million for fiscal 2017 to A$27 million for fiscal 2018. The impairment loss on loans and advances represents 5 basis points of gross loans and advances, and was driven by continued sound management and a robust and balanced credit risk management framework. The result remains well below the through-the-cycle operating range of 10 to 20 basis points. Despite growth in the lending portfolio, collective provision for impairment reduced over fiscal 2018 primarily driven by the quality of new business loans and improvements in several long-standing business exposures. Specific provision for impairment increased over fiscal 2018, predominately driven by a small number of medium sized business lending exposures. The year on year increase in specific provision for impairment was impacted by a small number of large write backs that occurred in fiscal 2017.

The Bank's consolidated effective tax rate for fiscal 2018 (as part of the Suncorp Group Limited consolidated tax group) was 30.0%, compared with 29.9% for fiscal 2017.

Lending Growth. The Bank's gross loans and advances, including securitized assets, grew 6.1% to A$58.7 billion as at June 30, 2018 compared with A$55.3 billion as at June 30, 2017.

	As at June 30,		Percentage Change
	2018	**2017**	
	(A$m)		*(%)*
Housing loans	41,159	38,722	6.3
Securitized housing loans and covered bonds	6,445	6,122	5.3
Total housing loans	**47,604**	**44,844**	6.2
Consumer loans	175	254	(31.1)
Retail loans	**47,779**	**45,098**	5.9
Commercial (SME)	6,402	5,729	11.7
Agribusiness	4,535	4,497	0.8
Total business loans	**10,937**	**10,226**	7.0
Total lending	**58,716**	**55,324**	6.1
Other lending	12	13	(7.7)
Gross loans and advances	**58,728**	**55,337**	6.1
Provision for impairment	(130)	(140)	(7.1)
Total loans and advances	**58,598**	**55,197**	6.2
Credit risk-weighted assets	**27,234**	**26,543**	2.6
Geographical breakdown – Total lending			
Queensland	31,005	29,288	5.9
Outside of Queensland	27,711	26,036	6.4
New South Wales	15,624	14,469	8.0
Victoria	6,079	5,684	6.9
Western Australia	3,587	3,683	(2.6)
South Australia and other	2,421	2,200	10.1
Total lending	**58,716**	**55,324**	6.1

Retail loans increased 5.9% from A$45.1 billion as at June 30, 2017 to A$47.8 billion as at June 30, 2018. The competitive landscape for home lending was shaped by competitive pricing across both investor and owner-occupier segments as the industry responded to macro prudential limit settings such as investor lending and interest-only growth caps and continued to experience a historically low cash rate. Although competition in this segment remained high, the Bank continued to focus on competitive price offerings underpinned by quality and profitable growth. Home lending receivables (excluding securitized housing loans and covered bonds) increased 6.3% from A$38.7 billion as at June 30, 2017 to A$41.2 billion as at June 30, 2018 reflecting an increased focus on process optimization and customer retention and was complemented by competitive offerings and stronger broker partnerships. Maintaining strong relationships with intermediaries, particularly brokers, remains integral to building a presence outside the Bank's traditional Queensland markets, with approximately 51% of the home lending portfolio outside Queensland as at June 30, 2018. The Bank continues to focus on meeting customer needs through the channel they choose, whether they choose to transact directly or through a broker. Approximately 67% of the Bank's total housing loans as at June 30, 2018, were originated through intermediaries, including brokers. For customers that prefer to interact face-to-face with lending specialists, the Bank has enhanced its direct lending team with a greater focus on performance management, productivity and pipeline management. The Bank also maintains relationships with preferred loan referrers such as Nexus & Pexa, to source quality customer leads and support productivity improvements.

Total business loans increased 7.0% from A$10.2 billion as at June 30, 2017 to A$10.9 billion as at June 30, 2018. Growth in business loans during fiscal 2018 was driven by deliberate management action to achieve targeted growth within selected well-known market segments, to balance the total lending portfolio mix, while ensuring there is an appropriate return. The commercial (SME) portfolio increased by 11.7% to A$6.4 billion over fiscal 2018. Commercial (SME) lending growth was achieved within conservative risk appetite settings, which consider geographical diversity, industry, security, and customer profile. Prudent growth was achieved in property investment, small businesses, and development finance located in Eastern capital cities. The portfolio remained relatively well-diversified across industries, see "Suncorp-Metway-Limited — Business Banking" for a breakdown of the portfolio. As at June 30, 2018, 71% of the commercial (SME) loan portfolio was located within Queensland. The agribusiness portfolio increased 0.8% to A$4.5 billion over fiscal 2018, focusing on medium to large family-owned farming operations with mid-size lending requirements. Growth was balanced in light of the variable weather conditions during 2018 and 2017. The Bank continues to utilize a collaborative customer approach to supporting customers, employees and communities under stressed conditions. The Agribusiness portfolios under the most stress are generally found to be impacted by drought. The Bank continues to monitor customers closely for any signs of credit stress. A clear risk appetite continues to guide decisions around new business.

Net Interest Income. Net interest income grew 4.4% from A$1,131 million for fiscal 2017 to A$1,181 million for fiscal 2018, primarily driven by increased lending volumes.

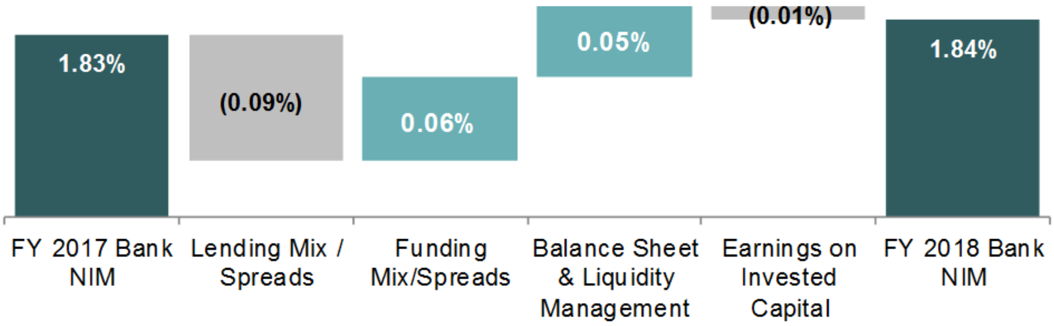
	Fiscal		**Percentage Change**
	2018	**2017**	
	(A$m)		*(%)*
Net interest income			
Interest income	2,528	2,481	1.9
Interest expense	(1,347)	(1,350)	(0.2)
Total net interest income	**1,181**	**1,131**	4.4

Net interest margin increased to 1.84% for fiscal 2018 from 1.83% for fiscal 2017. This reflected a period of sound lending growth, proactive term deposit repricing and portfolio mix benefits following growth in at-call customer deposits. This was partially offset by competitive market pricing pressures, an increase in existing customers converting to principal and interest payments, an elevated BBSW and wider credit spreads.

	Fiscal	
	2018	**2017**
	(%)	
Net interest margin(1)		
Interest-earning assets	1.84	1.83
Lending assets	2.07	2.09

(1) Based on average statement of financial position.

The table below illustrates the movements of the Bank's net interest margin from 1.83% for fiscal 2017 to 1.84% for fiscal 2018.



The table below illustrates the Bank’s average statement of financial position and annualized average interest rate, as broken down by asset type for fiscal 2018 and 2017.

	Fiscal 2018			Fiscal 2017		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(A$m)		(%)	(A$m)		(%)
Assets						
Interest earning assets						
Trading and investment securities	7,009	180	2.6	7,817	206	2.6
Gross loans and advances	57,171	2,348	4.1	54,047	2,275	4.2
Total interest earning assets	**64,180**	**2,528**	**3.9**	**61,864**	**2,481**	**4.0**
Non-interest earning assets						
Other assets (including loan provisions)	1,189			1,092		
Total non-interest earning assets	1,189			1,092		
Total assets	**65,369**			**62,956**		
Liabilities						
Interest-bearing liabilities						
Customer deposits	37,330	689	1.9	35,819	714	2.0
Wholesale liabilities	22,333	625	2.8	21,622	603	2.8
Subordinated loans	742	33	4.5	742	33	4.4
Total interest-bearing liabilities	**60,405**	**1,347**	**2.2**	**58,183**	**1,350**	**2.3**
Non-interest-bearing liabilities						
Other liabilities	722			696		
Total non-interest-bearing liabilities	**722**			**696**		
Total liabilities	**61,127**			**58,879**		
Average shareholders’ equity	**4,242**			**4,077**		
Analysis of interest margin and spread						
Interest earning assets	64,180	2,528	3.9	61,864	2,481	4.0
Interest-bearing liabilities	60,405	1,347	2.2	58,183	1,350	2.3
Net interest spread			**1.7**			**1.7**
Interest-earning assets net interest margin	**64,180**	**1,181**	**1.8**	**61,864**	**1,131**	**1.8**
Lending assets net interest margin	**57,171**	**1,181**	**2.1**	**54,047**	**1,131**	**2.1**

	Fiscal 2018	Fiscal 2017	Percentage Change
	(A$m)		(%)
Other operating income			
Net banking fee and commission income	42	64	(34.4)
Net gains /(losses) on:			
Trading securities	5	3	66.7
Financial liabilities designated at fair value through profit and loss	-	1	n/a
Derivative and other financial instruments	5	3	66.7
Other revenue	8	5	60.0
Other operating income	**60**	**76**	(21.1)

Other operating income. Other operating income decreased 21.1% from A$76 million for fiscal 2017 to A$60 million for fiscal 2018, primarily due to a reduction in certain customer fees to improve the customer experience and meet ongoing demand for low fee banking products.

Operating Expenses. Operating expenses increased 12.9% from A$638 million for fiscal 2017 to A$720 million for fiscal 2018. This was primarily due to investment in the acceleration of the Marketplace strategy, digital payments and self-service capability, infrastructure and modernization of the store network, investment in the BIP, increased marketing investment to support growth, and other expenses, including an increase in costs associated with regulatory compliance and inquiry responses. As a result, the cost-to-income ratio for fiscal 2018 was 58.0% compared with 52.9% for fiscal 2017.

Loan Impairment. Impairment loss on financial assets increased from A$7 million for fiscal 2017 to A$27 million for fiscal 2018. Impairment loss on loans and advances represents 5 basis points of gross loans and advances, and was driven by continued sound management and a robust and balanced credit risk management framework. The result remains well below the through-the-cycle operating range of 10 to 20 basis points. Despite growth in the lending portfolio, collective provision for impairment reduced over fiscal 2018, primarily driven by the quality of new business loans and improvements in several long-standing business exposures. Specific provision for impairment increased over fiscal 2018, predominately driven by a small number of medium sized business lending exposures. The year on year increase in specific provision for impairment was impacted by a small number of large write backs that occurred in fiscal 2017.

	As at June 30, 2018	As at June 30, 2017	Percentage Change
	(A$m)		(%)
Gross balances of impaired loans			
Retail	37	34	8.8
Agribusiness	51	79	(35.4)
Commercial (SME)	56	60	(6.7)
Gross impaired assets	**144**	**173**	(16.8)
Specific provision for impairment	(39)	(44)	(11.4)
Net impaired assets	**105**	**129**	(18.6)
Size of gross individual impaired assets			
Less than one million	32	38	(15.8)
Greater than one million but less than ten million	97	73	32.9
Greater than ten million	15	62	(75.8)
Gross impaired assets	**144**	**173**	(16.8)

	As at June 30,		Percentage
	2018	2017	Change
	(A$m)		(%)
Past due loans not shown as impaired assets			
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognized in the contribution to profit. The value of past due loans equals	541	426	27.0
Gross non-performing loans	**685**	**599**	14.4
Gross impaired assets as a percentage of gross loans and advances(1)	0.25%	0.31%	
Gross non-performing loans as a percentage of gross loans and advances(2)	1.17%	1.08%	

	Fiscal		Percentage
	2018	2017	Change
	(A$m)		(%)
Analysis of movements in gross impaired assets			
Balance at the beginning of the financial year	**173**	**206**	(16.0)
Recognition of new impaired assets	104	95	9.5
Increases in previously recognized impaired assets	4	4	0
Impaired assets written off/sold during the year	(23)	(16)	(43.8)
Impaired assets which have been reclassified as performing assets or repaid	(114)	(116)	(1.7)
Balance at the end of the financial year	**144**	**173**	(16.8)

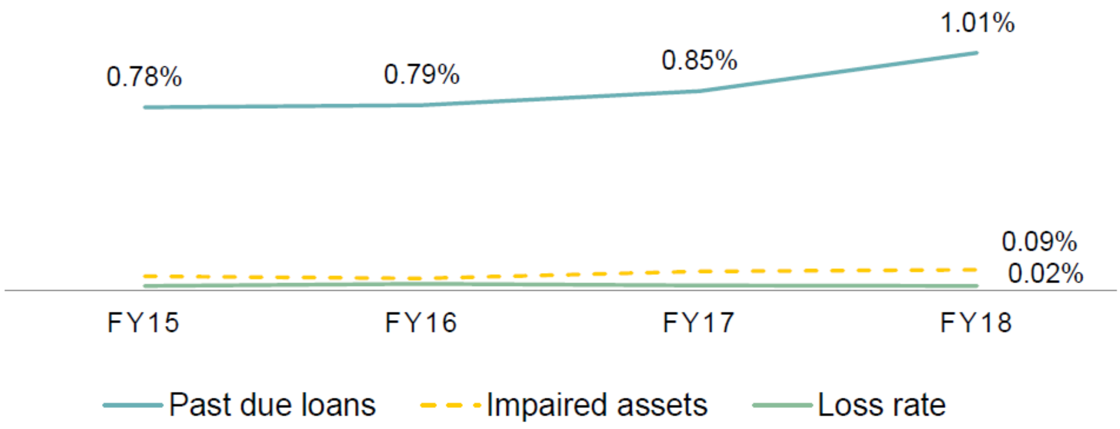
(1) Calculated as (gross impaired assets) / (gross loans and advances) for the end of the financial year.

(2) Calculated as (gross non-performing loans) / (gross loans and advances) for the end of the financial year.

Gross impaired assets. Gross impaired assets decreased 16.8% from A$173 million as at June 30, 2017 to A$144 million as at June 30, 2018 (representing 0.25% of gross loans and advances), primarily due to a reduction in impaired agribusiness loans. Retail impaired assets increased by A$3 million over fiscal 2018 to A$37 million. As anticipated, a temporary increase in retail impaired assets in the first half of fiscal 2018 due to higher Mortgagee in Possession property sales has now started to reverse, following the processing of a number of mortgage insurance claims.

Past due loans not shown as impaired. Total home lending past due loans as a percentage of home loans increased from 0.85% as at June 30, 2017 to 1.01% as at June 30, 2018, predominately driven by changes to hardship and recoveries processes, implemented to better support customers genuinely experiencing hardship.

The table below illustrates home lending quality as a percentage of gross home loans:



A breakdown of collective and specific provisions as at June 30, 2018 and 2017 are as follows:

	Fiscal		Percentage Change
	2018	2017	
	(A$m)		*(%)*
Collective provision			
Balance at the beginning of the financial year	96	108	(11.1)
Write-back against impairment losses	(5)	(12)	(58.3)
Balance at the end of the financial year	**91**	**96**	(5.2)
Specific provision			
Balance at the beginning of the financial year	44	56	(21.4)
New and increased individual provisioning	37	34	8.8
Write-back of provisions no longer required	(15)	(25)	(40.0)
Impairment provision written-off	(23)	(16)	43.8
Unwind of discount	(4)	(5)	(20.0)
Balance at the end of the financial year	**39**	**44**	(11.4)
Total provision for impairment – Banking activities	**130**	**140**	(7.1)
Equity reserve for credit losses[1]			
Balance at the beginning of the financial year	82	85	(3.5)
Transfer from / (to) retained earnings	6	(3)	n/a
Balance at the end of the financial year	**88**	**82**	7.3
Pre-tax equivalent coverage	**126**	**117**	7.7
Total provision for impairment and equity reserve for credit losses – Banking activities	**256**	**257**	(0.4)

	As at June 30,	
	2018	2017
Provision for impairment expressed as a percentage of gross loans and advances are as follows:	%	
Collective provision	0.15	0.17
Specific provision	0.07	0.08
Total provision	0.22	0.25
Equity reserve for credit losses	0.21	0.21
Total provision and equity reserve for credit losses	**0.43**	**0.46**

(1) The equity reserve for credit loss comprises transfers from retained profits required where the Bank's specific and collective provisions for impairment are insufficient relative to APRA's provisioning requirements. While this disclosure is additional to the requirements of AASBs and IFRS, common practice in the Australian reporting environment is to disclose the equity reserve for credit loss and associated ratios as presented in the table above.

A breakdown of gross loans and advances, impaired assets and specific provisions as at June 30, 2018 and 2017 are as follows:

	As at June 30, 2018 (1)			As at June 30, 2017 (1)		
	(A$m)					
	Gross Loans and Advances	**Impaired Assets**	**Specific Provisions**	**Gross Loans and Advances**	**Impaired Assets**	**Specific Provisions**
Agribusiness	4,014	48	17	3,966	71	12
Construction and development	732	1	1	578	3	1
Financial services	92	-	-	99	-	-
Hospitality	986	26	6	948	40	13
Manufacturing	234	2	-	274	2	-
Professional services	278	1	1	274	7	4
Property investment	2,448	8	3	2,080	5	3
Real estate mortgage	47,611	38	5	44,841	34	6
Personal	182	-	-	259	-	-
Other commercial and industrial	2,151	20	6	2,018	11	5
Total	**58,728**	**144**	**39**	**55,337**	**173**	**44**

(1) The table as at June 30, 2018 and 2017 has been prepared in accordance with the Bank's APS 330 as in effect as of June 30, 2018 and 2017.

Liquidity and Capital Resources

Liquidity

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on-demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and taxation and the ability to fund new and existing loan and contractual commitments.

The Board of the Group is ultimately responsible for the sound and prudent management of liquidity risk. Under authority of the Group's Board, the Group Board Risk Committee has responsibility for oversight of liquidity risk. The Group Board Risk Committee approves the statement of liquidity risk tolerance, the liquidity management strategy and policy, the funding strategy and contingency funding plan, at least annually. The Group from time to time establishes policies and frameworks that are applicable to the entire Group, including the Bank. The Group has established a Liquidity Management Policy relevant to all lines of business, which allows for a more principles-based approach to Liquidity Management Policy implementation. This policy was last updated in May 2019.

Executive management of liquidity and funding risk is delegated to the Bank Asset and Liability Committee which establishes, manages and enforces the Bank's Liquidity and Funding Framework and endorses and monitors the Bank's funding strategy to ensure liquidity and funding risk is managed in accordance with the approved risk tolerance. The primary objective of the Liquidity and Funding Framework and Liquidity Management Policy is to ensure that the Bank has sufficient funds available to meet all of the Bank's known and potential commitments on a normal, going concern basis and in a crisis situation. Liquidity risk is managed using a framework that includes going concern and crisis scenario analysis, minimum liquid asset ratios, liquidity concentration limits and other supplementary management trigger limits.

The Liquidity and Funding Framework establishes the risk, compliance and governance structure to measure, monitor and manage liquidity risk and funding risk under APRA's Prudential Standard *APS 210: Liquidity* ("APS 210"). The framework was endorsed by the Group Board Risk Committee in September 2017. See "Regulation and Supervision — APRA's prudential supervision — Liquidity."

Under the key principles of the current APS 210, each ADI:

- is responsible for the sound management of its liquidity risk and must have a robust framework to manage its liquidity risk accordingly;
- must at all times maintain sufficient liquidity to meet its obligations as they fall due and hold a minimum level of HQLA to survive a severe liquidity stress;
- must ensure that its activities are funded with stable sources of funding on an ongoing basis; and
- must inform APRA as soon as possible of any concerns it has about its current or future liquidity position, and its plans to address these concerns. In particular, if an ADI experiences a severe liquidity stress, it must notify APRA immediately and advise of the action that is being taken to address the situation.

The Bank's funding risk is managed through the sourcing of customer deposits and long-term funding to provide the majority of asset-lending funds. Funding capacity is monitored and diversity in the Bank's funding portfolio is managed with a consideration for product, tenor, geography and customer concentrations.

Sources of Liquidity

The Bank's principal sources of liquidity are:

- Customer funding, comprising customer deposits (A$38.9 billion as at June 30, 2019); and

- Wholesale funding, comprising:

  - US$15 billion Euro Medium-Term Notes Program and Euro Commercial Paper Program (A$0.0 billion outstanding as at June 30, 2019);

  - Australian Medium-Term Notes and Transferable Certificate of Deposit Program with an unlimited principal amount and Negotiated Certificates of Deposit (A$9.0 billion outstanding as at June 30, 2019);

  - US$5 billion Global Covered Bond Programme (A$2.8 billion outstanding as at June 30, 2019);

  - Securitization of residential mortgages through the APOLLO series trusts – (9 term trusts with A$3.8 billion outstanding as at June 30, 2019);

  - US$5 billion United States Commercial Paper Program (A$2.3 billion outstanding as at June 30, 2019); and

  - US$15 billion U.S. Medium-Term Notes Program (A$3.5 billion outstanding as at June 30, 2019).

Funding Profile

The table below illustrates the Bank's current retail and wholesale funding sources as at June 30, 2019, 2018 and 2017.

	As at June 30,		
	2019	**2018**	**2017**
		(A$m)	
Customer funding			
Customer deposits			
At-call deposits	22,502	20,289	18,945
Term deposits	16,401	18,272	17,895
Total customer funding	**38,903**	**38,561**	**36,840**
Wholesale funding			
Domestic funding			
Short-term wholesale	5,376	5,442	6,118
Long-term wholesale	4,032	4,863	4,062
Covered Bonds	2,788	2,037	2,491
Subordinated notes	672	742	742
Overseas funding[(1)]			

	As at June 30,		
	2019	**2018**	**2017**
Short-term wholesale	2,272	2,040	2,469
Long-term wholesale	3,538	2,954	2,663
Total wholesale funding	**18,678**	**18,078**	**18,545**
Total funding (excluding securitization)	**57,581**	**56,639**	**55,385**
Securitized funding			
APS 120 qualifying(2)	3,825	4,809	3,050
APS 120 non-qualifying	6	39	38
Total securitized funding	**3,831**	**4,848**	**3,088**
Total funding (including securitization)	**61,412**	**61,487**	**58,473**
Total funding is represented on statement of financial position by:			
Deposits	38,903	38,561	36,840
Short-term borrowings	7,648	7,482	8,587
Securitization liabilities	3,831	4,848	3,088
Debt issues (3)	10,358	9,854	9,216
Subordinated notes	672	742	742
Total	**61,412**	**61,487**	**58,473**

(1) Foreign currency borrowings are hedged back into Australian dollars.
(2) Qualifies for capital relief under APS 120.
(3) After fiscal 2019, the Bank issued A$750 million (US$515.4 million) of Australian Medium term Notes on July 30, 2019, due July 30, 2024 and A$350 million (US$237 million) of Australian Medium Term Notes on September 3, 2019, due August 24, 2020, which are not reflected in this table.

The following table illustrates the Bank's maturity profile of its short-term and long-term indebtedness as at June 30, 2019, 2018 and 2017:

	Short-Term	**Long-Term**		**As at June 30,**	
			2019	**2018**	**2017**
			(A$m)		
0 to 3 months	5,004	878	5,882	5,031	6,703
3 to 6 months	2,262	1,291	3,553	4,257	3,806
6 to 12 months	382	1,758	2,140	2,888	819
1 to 3 years	-	5,738	5,738	7,001	5,874
3+ years	-	5,196	5,196	3,749	4,431
Total wholesale funding instruments	**7,648**	**14,861**	**22,509**	**22,926**	**21,633**

The Bank has a tiered limit structure to ensure the amount of qualifying liquid assets held is always sufficient to satisfy APRA's LCR requirements (i.e., with a buffer above the APRA Prudential

Limit of 100% and the Bank's internal Board limit of 103%). This means that the amount of qualifying liquid assets held will always be sufficient to cover net cash outflows, comprising of the expected runoff of liabilities/commitments less the inflow of contractual receivables, over a 30-day stress scenario. The Bank was granted a A$4.9 billion Committed Liquidity Facility ("CLF") with the RBA by APRA for calendar 2019 and has applied for a CLF for calendar 2020, with a response from APRA expected to be received by September 30, 2019. The CLF is available for Australian dollar-denominated cash outflows and has a 15 basis point commitment fee until December 31, 2019. The commitment fee will increase to 17 basis points for the 2020 calendar year and to 20 basis points from January 1, 2021. It is collateralized by securities which are repo-eligible with the RBA, which includes internal residential mortgage backed securities ("RMBS"). The Bank applies to APRA on an annual basis for the CLF.

The Bank also has access to contingent liquidity in a crisis, including A$4.7 billion (cash equivalent as at June 30, 2019) of untapped on-balance sheet RMBS as part of the Apollo Series 2008-1R Trust, which is the Bank's internal RMBS, some of which is allocated to the CLF, and additional A$19 billion (cash equivalent as at June 30, 2019) of mortgages that could be included in the facility if required.

The A+/A1 rating of the Bank enables it to access a range of wholesale funding products and markets, while its customer deposit base permits the Bank to be less reliant on the more expensive offshore term funding markets. This provides the Bank with funding flexibility and the potential capacity for future growth.

Customer Funding. The Bank has sought to broaden its deposit base nationally and pursue quality stable customer deposits to drive its deposits-to-loans ratio towards the top end of its target range of 60-70%.

Customer deposits are managed to support the Bank's lending growth, liquidity and revenue objectives. Total customer funding increased 0.9% from A$38.6 billion as at June 30, 2018, to A$38.9 billion as at June 30, 2019, principally due to growth in customer at-call deposits. The Bank continues to manage customer deposits in line with its lending growth, with the deposits-to-loans ratio of 65.6% at June 30, 2019, within the Bank's target range of 60% to 70%. The Bank's at-call deposits grew 10.9% from A$20.3 billion at June 30, 2018 to A$22.5 billion at June 30, 2019. The Bank's term deposits decreased 10.2% from A$18.3 billion at June 30, 2018 to A$16.4 billion at June 30, 2019, as the Bank continued to balance the customer deposit portfolio to reduce reliance on relatively more expensive term deposits, with at-call deposits reflecting a higher proportion of customer funding.

Wholesale Funding.

During fiscal 2019, the Bank issued A$3.1 billion in term wholesale issuances. This included A$500 million (US$349.8 million) five-year senior unsecured Australian Medium Term Notes on May 6, 2019, A$500 million (US$353.6 million) of an existing senior unsecured line on October 31, 2018, A$750 million (US$540 million), of five-year Covered Bonds on September 13, 2018 and US$500 million of five-year senior unsecured Medium Term Notes on April 15, 2019. In addition, the bank issued a number of private placements off its domestic and offshore programs. These included A$117.5 million (US$82.2 million) in senior unsecured bonds on June 27, 2019, A$100 million (US$71 million) in senior unsecured bonds on March 14, 2019, A$100 million (US$74 million) of 23-month senior unsecured notes on July 18, 2018, A$210.3 million (US$150 million) of two-year senior unsecured notes on October 23, 2018 and A$138.4 million (US$100 million) of 18-month senior unsecured notes on December 18, 2018. After fiscal 2019, the Bank issued A$750 million (US$515.4 million) in five-year senior unsecured Australian MTN on July 30, 2019, due July 30, 2024 and A$350 million (US$237 million) of Australian Medium Term Notes on September 3, 2019, due August 24, 2020, which are not reflected in the table above.

During fiscal 2018, the Bank issued A$5.5 billion in term wholesale issuance. This included, A$500 million (US$390.8 million) five-year senior unsecured securities on August 16, 2017, and A$150 million (US$115.1 million), an increase to the Covered Bond Series 2016-2 on August 24, 2017. Furthermore, it included A$800 million of one-year senior unsecured notes, A$450 million of two-year senior unsecured notes, A$1.50 billion of RMBS with a weighted average life of 4.5 years in September 2017 and A$1.25 billion of RMBS with a weighted average life of 4.5 years in April 2018. The Bank issued US$500 million of three-year senior unsecured medium term notes in November 2017 and A$200 million (US$156.2 million) one-year senior unsecured securities on February 5, 2018. After fiscal 2018, the Bank issued A$100 million (US$74 million) of Australian MTN on July 18, 2018 and A$750 million (US$540 million) of Covered Bonds on September 13, 2018.

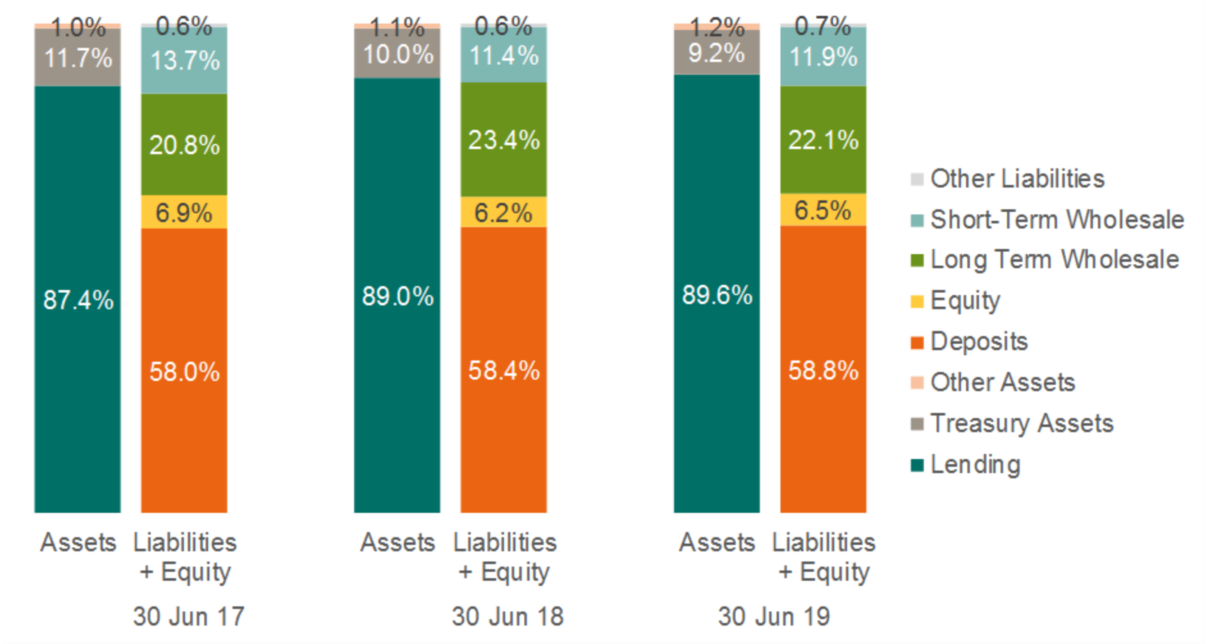
During fiscal 2017, the Bank issued A$4.1 billion in term wholesale issuance. This included the Bank's inaugural ten-year issuances in both senior unsecured and covered formats, respectively, for A$25 million and A$450 million. Furthermore, it included A$900 million of one-year senior unsecured notes, A$650 million of two-year senior unsecured notes and A$1.25 billion of RMBS with a weighted average life of 4.5 years in February 2017. The Bank also issued US$100 million of three-year senior unsecured medium term notes in April 2017 and US$500 million of five-year senior unsecured medium term notes in May 2017.

The Bank operates what it believes to be an appropriate wholesale funding instrument duration profile given its strong customer deposits-to-loans ratio. Securitization represents a large proportion of wholesale funding with a maturity of greater than 12 months. While this funding amortizes over time, its rate of duration decline is lower than other term funding instruments. This reduces the profile of future funding maturity towers and is important in reducing refinancing risk.

Bank Funding Composition. The following chart outlines the Bank's funding composition as at June 30, 2019, 2018 and 2017. The Bank adopts a conservative approach to managing funding and liquidity risk, which is aimed at ensuring a strong and sustainable funding profile that supports balance sheet growth. The Bank's key funding and liquidity management strategies include:

- Increasing stable deposits combined with an appropriate NSFR position;
- Maintaining a sustainable and diversified funding base across a range of long-term wholesale markets such as covered bond, domestic and offshore senior unsecured, and RMBS;
- Minimizing the impact of market volatility by maintaining a smooth maturity profile of long-term wholesale funding maturities with an appropriate weighted average tenor; and
- Ensuring short-term resilience by managing HQLA comfortably above net cash outflows under various stress scenarios.

The resulting change in the balance sheet composition is shown in the chart below.



Credit Ratings

As of the date of this Report, credit ratings for the Bank's short-term and long-term senior unsecured debt were as follows:

	Short-term debt	Long-term debt	Outlook
Standard & Poor's	A1	A+	Stable
Moody's Investors Service, Inc.	P1	A1	Stable
Fitch, Inc.	F1	A+	Stable

Note: Ratings are not a recommendation to purchase, hold or sell securities, and may be changed, suspended or withdrawn at any time.

Cash Flow Analysis

Set forth below is a summary of the Bank's cash flow for the periods indicated. See the consolidated statements of cash flows in the 2019 annual financial statements, 2018 annual financial statements and 2017 annual financial statements for more detailed cash flow information.

	Fiscal		
	2019	**2018**	**2017**
		(A$m)	
Cash flows from operating activities	572	(2,650)	(770)
Cash flows from investing activities	426	328	871
Cash flows from financing activities	(1,046)	1,734	71
Net increase / (decrease) in cash and cash equivalents	**(48)**	**(588)**	**172**

Cash Flows From Operating Activities

Comparison of fiscal 2019 to fiscal 2018

Cash flows received from operating activities increased from a cash outflow of A$2,650 million in fiscal 2018 to a cash inflow of A$572 million in fiscal 2019. The increase in cash inflow is a result of decreased cash outflows from loans and advances of A$2,810 million, driven by a competitive and slowing market resulting in lower growth compared to fiscal 2018. During fiscal 2019, the net cash outflow relating to gross loans and advances was A$616 million compared to A$3,426 million net cash outflow in fiscal 2018. This was slightly offset by increased cash inflows of A$531 million from trading securities which were liquidated into cash and cash equivalents, specifically reverse repurchase agreements.

Comparison of fiscal 2018 to fiscal 2017

Cash flows used in operating activities increased from a cash outflow of A$770 million in fiscal 2017 to a cash outflow of A$2,650 million in fiscal 2018. The increase in cash outflows is largely attributable to increased cash outflows from loans and advances of A$2,354 million exceeding the increase in cash inflows from deposits and short-term borrowings of A$579 million. The increase in cash outflows from loans and advances in fiscal 2018 was a result of increased lending performance primarily from housing loans whereby the portfolio grew by A$2.76 billion or 6.1%, which was driven by the increased focus on process optimization and customer retention and business loans which grew by A$0.70 billion or 6.9%, which was driven by targeted commercial growth, primarily in small business and property investment. Increased cash inflows from deposits and short-term borrowings of A$585 million in fiscal 2018, compared to A$6 million in fiscal 2017, were driven by the successful launch of the growth saver product and increases in other saving products due to the competitive pricing on offer.

Cash Flows From Investing Activities

Comparison of fiscal 2019 to fiscal 2018

Cash flows from investment activities increased from a cash inflow of A$328 million in fiscal 2018 to a cash inflow of A$426 million in fiscal 2019. This was largely due to sales of government securities, residential mortgage backed securities and non-government floating rate notes of A$1,564 million, offset by purchases of A$1,138 million.

Comparison of fiscal 2018 to fiscal 2017

Cash flows from investment activities decreased from a cash inflow of A$871 million in fiscal 2017 to a cash inflow of A$328 million in fiscal 2018. This is in line with the increase in CLF size (from A$3.8 billion for calendar 2017 to A$4.7 billion for calendar 2018) which allowed for an increase in the amount of CLF collateral supported by self-securitization, reducing the Bank's investment securities as at June 30, 2018.

Cash Flows From Financing Activities

Comparison of fiscal 2019 to fiscal 2018

Cash flows from financing activities decreased from a cash inflow of A$1,734 million in fiscal 2018 to a cash outflow of A$1,046 million in fiscal 2019. The change in outflows is driven from cash inflows in fiscal 2018 from new securitizations of A$2.75 billion compared to no new issuances of securitized liabilities in fiscal 2019, resulting in lower cash inflows.

Comparison of fiscal 2018 to fiscal 2017

Cash flows from financing activities increased from a cash inflow of A$71 million in fiscal 2017 to a cash inflow of A$1,734 million in fiscal 2018. This was largely due to increased cash inflows from the issuances of securitized liabilities of A$2.75 billion in fiscal 2018 compared to A$1.25 billion in fiscal 2017, coupled with a decrease in cash outflows in fiscal 2018 from the reduction in repayments for debt issued. This was partially offset by cash outflows related to the net payment of A$275 million for the buy back and issue of capital notes of A$175 million in fiscal 2018.

Contractual Obligations

Each fiscal year the Bank prepares an analysis of its contractual commitments. See Note 26 to the 2019 annual financial statements for a quantitative and qualitative discussion of these risks. The Bank's most significant contractual obligation is the commitment to provide loans and advances to customers, which was A$8.6 billion as at June 30, 2019.

Off-Balance Sheet Transactions

In the ordinary course of business and primarily to facilitate client transactions, the Bank enters into off-balance sheet arrangements with unconsolidated entities of the Group. Under AASBs and IFRS all such entities are consolidated where the Bank is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. In accordance with the Group's policies, exposure to any of these transactions is not carried at a level that would have a material effect on the financial condition of the Bank. The impact on the Bank's consolidated statement of comprehensive income from these off-balance sheet arrangements is not considered material by the Bank.

Derivative Financial Instruments

Derivatives are used by the Bank to manage interest rate and foreign exchange risk. The use of derivatives to mitigate interest rate risk and currency risk includes the use of exchange traded cash, bill and bond futures, interest rate swaps, forward rate agreements, over-the-counter ("OTC") forward foreign exchange contracts, foreign exchange and cross currency swaps and interest rate and foreign exchange options. Derivative restrictions are designed to either prevent gearing or to limit unrealized and potential losses. Counterparty risk procedures are in place for OTC-type derivatives. As at June 30, 2019, there was no significant counterparty exposure to any one single entity. For a further discussion of the Bank's hedging activities, see Note 13 to the 2019 annual financial statements.

Quantitative and Qualitative Disclosures about Market Risk

Each fiscal year the Bank prepares an analysis of market risk as it applied to the Bank and a quantitative analysis of the Bank's value at risk for interest rates and foreign exchange, individually and in the aggregate. See Note 25.3 to the 2019 annual financial statements for a quantitative and qualitative discussion of these risks.

Capital Adequacy

As discussed under "Regulation and Supervision," the Bank must comply with separate regulatory capital adequacy prudential standards and guidelines from the Group. The standards and guidelines are prescribed by, and are continually being refined by, APRA. Regulatory capital will differ from statutory accounting capital due to the inclusion of some liabilities such as subordinated debt for the purposes of calculating regulatory capital, and the deduction of intangible assets such as goodwill and software assets from regulatory capital. See “Selected Financial Information—Regulatory Capital and Ratios” for details of the Bank’s Tier 1 and Tier 2 Capital as at June 30, 2019, 2018, 2017 and 2016.

For a discussion of the Bank’s capital adequacy requirements and how its ratios are calculated, see “Regulation and Supervision.”

APS 330 details the market disclosure requirements for Australian domiciled banks. APS 330 requires qualitative and quantitative disclosure of risk management practices and capital adequacy. These disclosures are required to be published by the Bank within 40 business days of the reporting date and are posted on the Bank’s U.S. Investors’ Website.

The Board of Directors is accountable to ensure that management of the Bank has established an internal capital adequacy assessment process (“ICAAP”) in order to ensure that the Bank satisfies both the capital adequacy prudential standards and guidelines set by APRA and meets the internal capital targets approved by the Board. The Board has ultimate responsibility for the Bank’s ICAAP and delegates to the Bank Asset and Liability Committee.[2]

As part of the Bank’s ICAAP, the Bank has a process for restoring capital to target levels if required. This may include support from the Group from time to time to meet capital targets, including a Common Equity Tier 1 ratio equal to or in excess of 8.75%. As at June 30, 2019, the Group’s investment in the Bank was comprised of ownership of A$3.9 billion in ordinary shares of the Bank, A$585 million of the Bank’s subordinated notes qualifying as Additional Tier 1 Capital and A$657 million of the Bank’s subordinated notes qualifying as Tier 2 Capital. On September 5, 2018, Suncorp Group Limited issued A$600 million wholesale subordinated notes which funded the refinancing of the A$670 million Bank Tier 2 Capital at the optional redemption date in November 2018. This reduced the Bank’s Tier 2 Capital, reflecting a more optimal level of Tier 2 funding. The Bank also issued a floating rate capital note which is eligible for transitional arrangements, per APRA prudential standards. Under the transitional arrangements, the amount currently recognized for regulatory capital purposes is A$57 million. In August 2019, as part of the capital management between the Bank and the Group, the Bank declared a net dividend to the Group of A$57.5 million (represented by a dividend of 100% of available profits for the half year, after adjustment for Additional Tier 1 Capital distributions, of $164.3 million), partially offset by capital injection of $106.8 million from the Group).

For details of the Bank’s Tier 1 and Tier 2 Capital as at June 30, 2019, 2018, 2017 and 2016, see “Selected Financial Information — Regulatory Capital and Ratios.”

[2] The Board delegates authority to the Group CEO who in turn delegates to the CEO Banking and Wealth to form management committees to assist in monitoring and oversight of risks within Banking and Wealth. The CEO Banking and Wealth has authorized Bank Asset and Liability Committee to ensure the Bank implements and executes an ICAAP.

REGULATION AND SUPERVISION

Overview

The principal regulators that supervise and regulate the Bank's activities are APRA, ASIC, the RBA, the ACCC, AUSTRAC and the ASX.

Set out below is a summary of certain key Australian legislative provisions that are applicable to the Bank's operations, and a summary of the functions of each of the principal regulators.

APRA

General

APRA is the prudential regulator of the Australian financial services industry. APRA establishes and enforces prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions under APRA's supervision are met within a stable, efficient and competitive financial system. The Bank is an ADI, and, as such, is subject to prudential regulation and supervision by APRA. The Bank has corporate governance and policy frameworks designed to meet APRA's requirements for ADIs. APRA has wide powers to act in the interests of depositors if an ADI is in difficulty.

In its supervision of ADIs, APRA focuses on capital adequacy, liquidity, market risk, credit risk, operational risk, associations with related entities, large exposures to unrelated entities and funds management, securitization and covered bonds activities and governance. APRA also focuses on the supervision of non-financial risks including outsourcing, business continuity management, information security, governance, accountability, remuneration, culture and conduct. APRA discharges its responsibilities by requiring ADIs to regularly provide it with reports which set forth a broad range of information, including financial and statistical information relating to their financial position and information in respect of prudential and other matters. This information is not generally available to investors. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from each ADI with selective "on site" visits and formal meetings with the ADIs' senior management and external auditors. The external auditors provide additional assurance to APRA that prudential standards applicable to ADIs are being observed, statistical and financial data provided by ADIs to APRA are reliable, and that statutory and other banking requirements are being met. External auditors are also required to undertake targeted reviews of specific risk management areas as requested by APRA. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations.

APRA is also responsible for the prudential regulation and supervision of life and general insurance companies and superannuation funds ultimately for the benefit of policyholders and superannuation fund beneficiaries.

Under the Australian Banking Act, APRA has powers to issue directions to the Bank and, in certain circumstances, to appoint an ADI statutory manager to take control of the Bank's business. In addition, APRA may, in certain circumstances, require the Bank to transfer all or part of its business to another entity under the Australian *Financial Sector (Transfer and Restructure) Act 1999* of the Commonwealth of Australia (the "Australian FSTR Act"). A transfer under the Australian FSTR Act overrides anything in any contract or agreement to which the Bank is a party to, including the terms of its debt securities. APRA's powers under the Australian Banking Act and Australian FSTR Act are discretionary and may be more likely to be exercised by it in circumstances where the Bank is in material breach of applicable banking laws and/or regulations, or is in financial distress, including where the Bank has contravened the Australian Banking Act (or any related regulations or other instruments made, or conditions imposed, under that Act), or where the Bank has informed APRA that it is unlikely to meet its obligations or that it is about to suspend its payments or is otherwise in financial distress. In these circumstances, APRA is required to have regard to protecting the interests of the Bank's depositors and to the stability of the Australian financial system, but not necessarily to the interests of other creditors of the Bank. For more information regarding recent legislative enhancement of APRA's powers in relation to ADIs, see "– APRA – Crisis Management" below.

Basel II Advanced Accreditation

The Bank continues to enhance its risk and capital management capabilities and, in particular, has implemented enhanced risk measurement capabilities that are intended to support more refined risk-based decision making and to increase the Bank's ability to differentiate risk within its portfolio and provide more risk-sensitive capital inputs that inform more competitive pricing strategies. These risk and capital management enhancements may assist the Bank in obtaining Basel II advanced accreditation, should it chose to apply for such advanced accreditation.

The proposed Basel III changes to the Standardised approach are not yet finalized and APRA has not released details on the proposed changes to the IRB approach, other than draft detail for residential mortgages. The new standards, as well as APRA's application of 'Unquestionably Strong', may impact the benefits of operating under an Advanced basis and will require further consideration before proceeding with Accreditation. Notwithstanding the changes, the Bank continues to benefit from the embedded use of advanced risk management practices.

APRA's prudential supervision – Capital adequacy

APRA's approach to the assessment of an ADI's capital adequacy is based on Basel II, originally released in 2004 and revised in June 2006 and Basel III, released in December 2010 and revised in June 2011. APRA's implementation of the Basel III capital framework began on January 1, 2013.

On December 7, 2017, the Basel Committee published its final revisions to the Basel III framework ("*Basel III: Finalising post-crisis reforms*"). The Basel Committee was seeking to achieve a better balance between simplicity and risk sensitivity, and to promote greater comparability in the risk-based capital approaches by reducing variability in risk-weighted assets across banks and jurisdictions by:

- enhancing the robustness and risk sensitivity of the standardized approaches for credit risk, credit valuation adjustment ("CVA") risk and operational risk;

- constraining the use of the internal model approaches, by placing limits on certain inputs used to calculate capital requirements under the internal ratings-based ("IRB") approach for credit risk and by removing the use of the internal model approaches for CVA risk and for operational risk;

- introducing a leverage ratio buffer to further limit the leverage of global systemically important banks; and

- replacing the existing Basel II output floor with a more robust risk-sensitive floor based on the Basel Committee's revised Basel III standardized approaches.

On January 14, 2019, the Basel Committee published a set of revisions to the market risk framework ("*Minimum capital requirements for market risk*"), which replaces an earlier version of the standard as published in January 2016. The standard was revised to address issues that the Basel Committee identified in the course of monitoring the implementation and impact of the framework. The revisions to the January 2016 framework include the following key changes:

- a simplified standardized approach for use by banks that have small or non-complex trading portfolios;
- clarifications on the scope of exposures that are subject to market risk capital requirements;
- refined standardized approach treatments of foreign exchange risk and index instruments;
- revised standardized approach risk weights applicable to general interest rate risk, foreign exchange and certain exposures subject to credit spread risk;
- revisions to the assessment process to determine whether a bank's internal risk management models appropriately reflect the risks of individual trading desks; and
- revisions to the requirements for identification of risk factors that are eligible for internal modeling.

The revised market risk framework will come into effect on January 1, 2022, concurrent with the implementation of the Basel III reforms published on December 7, 2017.

APRA's prudential supervision – Capital adequacy – Unquestionably Strong

Following the Basel Committee's Basel III announcement on December 7, 2017, on February 14, 2018, APRA published two discussion papers on proposed changes to the ADI capital framework and leverage requirements for Australian ADIs. APRA's capital framework discussion paper considered the Basel III reforms and provided insights on how it intends to implement 'Unquestionably Strong' benchmarks.

Key revisions to the capital framework proposed included:

- lower risk weights under APS 112 for low LVR mortgage loans, and generally higher risk weights for interest-only loans and loans for investment purposes, than apply under APRA's current framework;
- amendments to the treatment of exposures to SMEs, including those secured by residential property under the standardized and IRB approaches;
- changes to the LGD estimates applied by ADIs under the foundation IRB approach, including higher LGD estimates for senior unsecured exposures;
- constraints on ADIs use of the IRB approach to credit risk capital and of their own parameter estimates for particular exposures, an overall floor on risk weighted assets relative to the standardized approach;

- application of standard prescribed calculations for basis risk, optionality risk and duration of core deposits for the calculation of Interest Rate Risk in the Banking Book ("IRRBB");

- a single replacement methodology for the current advanced and standardized approaches to operational risk; and

- an increase in off-balance sheet exposure credit conversion factors.

The two discussion papers reinforced APRA's previous guidance. It is uncertain how the ultimate revisions to the capital framework will affect ADIs, and there is a broad range of potential outcomes for each individual bank.

The APRA discussion papers also outlined potential revisions to the leverage ratio requirements for ADIs, including APRA's intention to apply a minimum leverage ratio for ADIs, expressed as the ratio of Tier 1 Capital to total exposures. On November 27, 2018, APRA released its Response to Submissions Paper in relation to the introduction of the leverage ratio requirement for ADIs, and draft revised APS 110. In summary, in response to the submissions APRA proposes to:

- set the minimum leverage ratio requirement for IRB ADIs at 3.5%;

- set the minimum leverage ratio requirement for standardized ADIs at 3%;

- allow standardized ADIs to use AASB, rather than the more complex Basel III methodology, to calculate certain parts of the ratio; and

- require IRB ADIs to largely follow the Basel III methodology to calculate their leverage ratios.

APRA intends for the revised APS 110 to commence at the same time as the broader revisions to the risk-based capital framework, with a proposed implementation date of January 1, 2022. This also aligns with the Basel Committee's implementation date for these standards. IRB ADIs will be required to continue publically disclosing their leverage ratios as calculated under the current exposure measure until the revised framework commences.

APRA released a third discussion paper on August 14, 2018, which sets out the potential options to improve transparency, international comparability and flexibility of the capital framework but are not intended to change the amount of capital that ADIs are required to hold beyond the 'Unquestionably Strong' capital benchmarks announced in July 2017.

In its response to Submissions released on November 27, 2018, APRA proposed the revisions to the Basel III capital framework, initially outlined in February 2018, will come into effect from January 1, 2022, the internationally agreed implementation date set by the Basel Committee. APRA had originally proposed an earlier implementation date of January 1, 2021.

APRA released a further response to the Submissions on June 12, 2019. This response paper addressed key elements of the proposals relating to residential mortgages, the Standardised approaches to credit risk and operational risk, and the simplified framework.

Accompanying this response paper were draft versions of the following Prudential Standards:

- *APS 112 Capital Adequacy: Standardised Approach to Credit Risk*: among other changes, APRA is proposing to:

    - narrow the definition of "non-standard" mortgage;

    - increase the off-balance sheet credit conversion factor ("CCF"), even where a contractual right exists for the bank to cancel the undrawn credit;

    - amend mortgage risk weights, providing more granularity and higher risk weights for higher LVR exposures compared to the current standard;

    - differentiate between owner-occupied, principal-and-interest mortgages as compared to all other mortgages;

    - apply more granular risk-weightings for SME exposures, as well as recognize that collateral (motor vehicles, commercial property and plant, equipment and machinery) may mitigate losses in the event of default.

- *APS 113 Capital Adequacy*: *Internal Ratings-based Approach to Credit Risk*: amending the residential mortgages extract, including to more narrowly define the scope of residential mortgages and to simplify the method for calculating capital requirements for residential mortgages; and

- *APS 115 Capital Adequacy*: *Standardised Measurement Approach to Operational Risk*: revised to replace the Advanced Measurement Approach and reflect the requirements of the Standardised Measurement Approach, excluding the loss component.

In summary, this response paper and its accompanying draft Prudential Standards sought to further progress the implementation of Basel III and increase capital requirements to meet the unquestionably strong benchmarks. More broadly, the response paper also aims to:

- address the structural concentration in residential mortgages, including embedding improved serviceability assessments in the capital framework and targeting higher risk residential mortgages;

- aim for appropriate capital outcomes between the IRB and standardised approaches; and

- improve the transparency, comparability and flexibility of the capital framework.

APRA – Proposal for increasing the loss-absorbing capacity of ADIs for resolution purposes

On November 8, 2018, APRA released a discussion paper announcing proposed changes to the application of the capital adequacy framework for ADIs to support orderly resolution in the event of failure. The announcement follows the Australian Government's 2014 Financial System Inquiry which recommended that APRA implement a framework for minimum loss-absorbing and recapitalization capacity in line with emerging international practice.

The key elements of the proposed approach are:

- a new requirement for ADIs to maintain additional loss absorbency for resolution purposes. The requirement would be implemented by adjusting the amount of total capital that ADIs must maintain (initially estimated to be an additional 4% to 5% of capital), therefore using existing capital instruments rather than introducing new forms of loss-absorbing instruments (expected to be in the form of Tier 2 Capital); and

- for ADIs that are not domestic systemically important banks ("D-SIBs") (such as the Bank), the need for additional loss absorbency would be considered as part of resolution planning on an institution-by-institution basis. In addition to the proposals outlined in the discussion paper, APRA intends to consult with such ADIs during 2019 on creating a framework for recovery and resolution in 2019, which will include further details on resolution planning. APRA expects ADIs that can be resolved without the need for additional financial resources will not be required to meet a higher total capital requirement. However, APRA anticipates that a small number of non-D-SIB ADIs may require additional loss absorbency to facilitate resolution, due to their complexity or the nature of their functions.

During the consultation period on the proposed changes, concerns were raised about whether there would be sufficient capacity in debt markets to absorb the anticipated additional Tier 2 capital issuance. As a result, APRA announced on July 9, 2019 that it will require the major banks to lift Total Capital by a revised threshold of 3% of risk weighted assets by January 1, 2024 (instead of 4% to 5%). APRA's overall long term target of an additional 4% to 5% of loss absorbing capacity remains unchanged.

The July 9, 2019 APRA response to submissions was silent on any further update on APRA's position regarding ADIs other than the D-SIBs, apart from re-stating what the original November discussion paper had outlined – namely, that for small to medium ADIs, extra loss-absorbing capacity would be considered on a case-by-case basis as part of the resolution planning process.

APRA's prudential supervision – Liquidity

APRA's final prudential standards and practice guides implementing the global liquidity standards issued by the Basel Committee in the Basel III framework came into effect on January 1, 2018. In line with the liquidity standards contained within the Basel III framework, APRA introduced the LCR as part of its liquidity and funding framework, which became a minimum prudential requirement for ADIs on January 1, 2015.

In addition to implementing the LCR, APRA has implemented the NSFR into its liquidity and funding framework. The NSFR is a 12-month structural funding metric, which requires that "available stable funding" is sufficient to cover "required stable funding", where "stable funding" has an actual or assumed maturity of greater than 12 months, and funding less than 12 months is adjusted by prescribed factors. The new standard came into effect on January 1, 2018, consistent with the international timetable agreed to by the Basel Committee. The NSFR only applies to the largest and more complex Australian ADIs (including the Bank) that are also subject to the LCR requirements ("LCR ADIs"). Under APRA's NSFR requirements, LCR ADIs must maintain a NSFR of at least 100% at all times. The Bank currently complies with the requirements of the NSFR. The Bank's NSFR was 112% as at June 30, 2019.

APRA's prudential supervision – Counterparty credit risk

APRA's prudential standards implementing the Basel III reforms to the capital framework for counterparty credit risk and other credit exposures came into effect on January 1, 2013. On September 15, 2016, APRA released for consultation (i) its proposed revisions to its counterparty credit risk framework for ADIs; (ii) draft new Prudential Standard *APS 180 Capital Adequacy: Counterparty*

Credit Risk, and (iii) draft revised Prudential Standard *APS 112 Capital Adequacy: Standardised Approach to Credit Risk*. The revisions in large part reflect changes made by the Basel Committee to its framework for counterparty credit risk as set out in *The standardised approach for measuring counterparty credit risk* ("SA-CCR"), released in March 2014, and *Capital requirements for bank exposures to central counterparties - final standard,* released in April 2014.

In particular, the September 2016 Counterparty Credit Risk for ADIs consultation package proposed to require ADIs to use the SA-CCR methodology to measure counterparty credit risk exposures arising from over-the-counter derivatives, exchange traded derivatives and long settlement transactions. APRA announced that it did not propose to introduce the Basel Committee's internal model method for counterparty credit risk into its framework. It also proposed that all ADIs will be required to hold capital for exposures to central counterparties in a manner consistent with Basel Committee's final standard.

On January 1, 2019, APRA's revised large exposures framework came into effect.

On August 3, 2017, APRA released a discussion paper setting out both its response to submissions on its 2016 Counterparty Credit Risk for ADIs consultation package and a number of revised proposals for consultation, including a further revised draft of Prudential Standard *APS 112 Capital Adequacy: Standardised Approach to Credit Risk*. In its discussion paper, APRA proposed that an ADI with approval to use an IRB approach to credit risk must use the standardized approach for measuring counterparty credit risk exposures to measure its counterparty credit risk exposures, while all other ADIs may continue to use the current exposure method, the Basel Committee's method for measuring the counterparty credit risk associated with OTC derivatives, exchange-traded derivatives, and long settlement transactions, subject to appropriate recalibration.

In April 2018, APRA released final prudential standards for SA-CCR and implementation began on July 1, 2019. APRA noted in a letter to all ADIs that the final prudential standards incorporate the simplified approach to measuring counterparty credit risk exposures for ADIs with immaterial counterparty credit risk outlined in the 2017 discussion paper, and also include changes to reflect certain operational and interpretation issues in relation to the SA-CCR clarified by the Basel Committee in responses to a number of frequently asked questions.

APRA's prudential supervision – credit risk management

On March 25, 2019, APRA released a discussion paper proposing changes to *Prudential Standard APS 220 Credit Quality*, which requires ADIs to control credit risk by adopting prudent credit risk management policies and procedures. APS 220 was last substantially updated in 2006. APRA's plan to modernize the standard was prompted by its recent supervisory focus on credit standards, and also reflects contemporary credit risk management practices.

The discussion paper outlines APRA's proposals in the following areas:

- Credit risk management – The revised APS 220 broadens its coverage to include credit standards and the ongoing monitoring and management of an ADI's credit portfolio in more detail. It also incorporates enhanced board oversight of credit risk and the need for ADIs to maintain prudent credit risk practices over the entire credit life-cycle.

- Credit standards – The revised APS 220 incorporate outcomes from APRA's recent supervisory focus on credit standards and also addresses recommendation 1.12 from the final report of the Royal Commission in relation to the valuation of land taken as collateral by ADIs.

- Asset classification and provisioning – The revised APS 220 provides a more consistent classification of credit exposures, by aligning recent accounting standard changes on loan provisioning requirements, as well as other guidance on credit related matters of the Basel Committee.

To better describe the purpose of the revised standard, APRA also proposes to rename it *Prudential Standard APS 220 Credit Risk Management*. The proposed reforms are due to be implemented from July 1, 2020, and APRA intends to release for consultation an accompanying prudential practice guide and revised reporting standards later in 2019.

APRA's prudential supervision – Loss absorbency at the point of non-viability

On January 13, 2011, the Basel Committee issued the minimum requirements to ensure loss absorbency at the point of non-viability. These requirements enhance the entry criteria of regulatory capital to ensure that all regulatory capital instruments issued by banks are capable of absorbing losses in the event that a bank is unable to support itself in the private market and are in addition to the criteria detailed in the text of the Basel III framework that were published in December 2010.

Under the requirements, all Additional Tier 1 and Tier 2 instruments, meaning those instruments that meet or exceed the criteria set out in the Basel Committee's requirements and the criteria detailed in Basel III, issued by a bank on or after January 1, 2013, must have a provision which allows a relevant authority to require the debt to be written off or converted into common equity upon the earlier of such authority determining that (1) a write-off is necessary; and (2) rescue funds from the public sector (or equivalent) are required, for the bank to continue to be viable. Instruments issued prior to January 1, 2013 that do not meet these criteria but otherwise met all of the criteria for Additional Tier 1 or Tier 2 Capital as set out in the text of the Basel III framework are considered instruments that no longer qualify and were phased out from January 1, 2013.

APRA's implementation of these minimum requirements were included in its revised prudential standard relating to capital adequacy which came into effect on January 1, 2013. All additional Tier 1 and Tier 2 instruments currently issued by the Bank meet the requirements of the revised prudential standard requirements for loss absorbency at the point of non-viability or are eligible for transitional relief that is available for qualifying instruments on a progressively decreasing basis from January 1, 2013 until January 1, 2022.

APRA's prudential supervision – Management of large exposures

On December 7, 2017, APRA released a response paper setting out the revisions to its prudential framework on large exposures for ADIs as set out in *Prudential Standard APS 221: Large Exposures* ("APS 221"). APRA's large exposure framework aims to limit the impact of losses when a large counterparty defaults, and to restrict contagion risk spreading across the financial system. The core components of APRA's new large exposures framework are: (i) a reference to Tier 1 Capital as a basis for determining large exposures; (ii) a recalibration of existing large exposure limits and the introduction of a lower limit on certain exposures; and (iii) a stronger set of requirements for measuring exposure values and for assessing groups of connected counterparties. From January 1, 2019, APRA required ADIs to implement most aspects of APS 221. A transition period is provided for provisions relating to groups of connected counterparties and structured vehicles, which will allow ADIs to adopt full implementation of the large exposures framework by no later than January 1, 2020.

Crisis management

On October 19, 2017, the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Bill 2017* ("Crisis Management Bill") was introduced into the Australian Parliament to amend the Australian Banking Act (among other statutes applicable to financial institutions in Australia). The Australian Banking Act was amended with effect from March 5, 2018 by the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018* (the "Crisis Management Act"), which enhances APRA's powers in relation to the entities it regulates (and their subsidiaries). Additional powers which could impact the Bank include greater oversight, management and direction powers in relation to Group entities which were not previously regulated by APRA, increased statutory management powers over regulated entities within the Group and changes which are designed to increase certainty in relation to the conversion or write-off of regulatory capital instruments. The Crisis Management Act further provides APRA with powers to set requirements on resolution planning and ensure that banks and insurers are better prepared for a crisis and grants APRA an expanded set of crisis resolution powers, which allow APRA to act decisively to facilitate the orderly resolution of a distressed bank or insurer.

APRA's prudential supervision – Information Security

In November 2018, APRA released a new Prudential Standard *CPS 234 for Information Security* ("CPS 234"), which set out minimum standards for all APRA-regulated entities relating to information security. CPS 234 requires that an APRA-regulated entity takes measures to be resilient against information security incidents (including cyber-attacks) by maintaining an information security capability commensurate with information security vulnerabilities and threats. A key objective of CPS 234 is to minimize the likelihood and impact of information security incidents on the confidentiality, integrity or availability of information assets, including information assets managed by related parties or third parties. As at July 1, 2019, the Bank is compliant with CPS 234.

APRA's prudential supervision – Associations with Related Entities

On July 2, 2018, APRA released a discussion paper entitled "*Revisions to the related entities framework for ADIs*", in which it outlined proposed revisions to *APS 222 – Associations with Related Entities*. Among other things, APRA intends to attempt to further mitigate the flow of contagion risk to an ADI, particularly from related entities, and incorporate changes to the revised large exposures framework published in December 2017. The proposed revisions to the regulatory framework for related entities of ADIs include (i) broadening the definition of related entities to include, among other things, substantial shareholders, individual board directors and other related individuals; (ii) explicitly addressing "step-in risk" by incorporating guidance from the Basel Committee; (iii) tightening certain limits on exposure to related entities in line with limits on exposures to unrelated entities in the revised APS 221; (iv) removing the ability for certain overseas subsidiaries to be consolidated with the standalone ADI for prudential purposes; and (v) updating existing reporting requirements to align with the changes to the framework. These changes are intended to strengthen the ability of ADIs to monitor, limit and control risks arising from transactions and other associations with their related entities.

On August 20, 2019, APRA published its response to the submissions on the proposed revisions to the related entities framework for ADIs, and also released the final revised version of APS 222. APRA intends for the finalized framework to apply from January 1, 2020 and, in certain circumstances, to be subject to a transitional period.

RBA

In exercising its powers, APRA works closely with the RBA. The RBA is Australia's central bank and an active participant in the financial markets. It also manages Australia's foreign reserves, issues Australian currency notes, serves as banker to the Australian Government and, through the Payment Systems Board, supervises the payments system and sets the target cash rate.

ASIC

ASIC is Australia's corporate, markets and financial services regulator, which regulates Australian companies, financial markets, financial services organizations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. ASIC is also responsible for consumer protection, monitoring and promoting market integrity and licensing in relation to the Australian financial system, the provision of financial services and the payment system.

ASIC is the corporate regulator for each of the Group's entities that operate in Australia and is responsible for enforcing appropriate standards of corporate governance and conduct by directors and officers. A number of Group entities hold Australian financial services ("AFS") licenses. ASIC licenses and monitors AFS licensees and requires AFS licensees to ensure the financial services covered by their license are provided efficiently, honestly and fairly. A number of Group entities also hold Australian Credit Licenses ("ACL"). ASIC regulates ACL holders as the consumer credit regulator, licensing and regulating those entities to ensure they meet standards set out in the *National Consumer Credit Protection Act 2009* of Australia. ASIC is also responsible for the supervision of trading on Australia's domestic licensed equity, derivatives and future markets, including trading by Suncorp Group Limited and other ASX market participants in the Group.

ASX

The ASX is Australia's primary securities market. The ASX Listing Rules govern the requirements for entities listing and operating on the ASX and include provisions in relation to the issuance, suspension and removal of securities, continuous disclosure obligations and some aspects of a listed entity's conduct. The Listing Rules are enforceable against listed entities and their associates under the Australian Corporations Act. The ASX and ASIC oversee compliance with the ASX Listing Rules.

ACCC

The ACCC is Australia's competition regulator. Its key responsibilities are to ensure that corporations do not act in a way that may have the effect of eliminating or reducing competition, and to oversee product safety and liability issues, pricing practices and third party access to facilities of national significance. The ACCC's consumer protection activities complement those of Australia's state and territory consumer affairs agencies that administer the unfair trading legislation of those jurisdictions.

AUSTRAC

AUSTRAC is Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit. It works collaboratively with Australian industries and businesses (including certain entities of the Group) in their compliance with anti-money laundering and counter-terrorism financing legislation. As Australia's financial intelligence unit, AUSTRAC contributes to investigative and law enforcement work to combat money laundering, terrorism financing, organized and financial crime, tax evasion and to prosecute criminals in Australia and overseas.

The AML-CTF places obligations on providers of financial services and gaming services, and on bullion dealers. The AML-CTF affects entities who offer specific services which may be exploited to launder money or finance terrorism, for example, those relating to financial products, electronic fund transfers, designated remittance arrangements and correspondent banking relationships. The AML-CTF also has broad extra territorial application to overseas entities of Australian companies.

A number of entities in the Group, including the Bank, are considered to be "reporting entities" for the purposes of the AML-CTF and are required to undertake certain obligations, including "know your customer" obligations, on-boarding and ongoing customer risk assessments, identification and verification obligations, enhanced customer due diligence, establishing an AML-CTF program to identify, mitigate and manage the risk of money laundering and terrorism financing, enhanced record-keeping and reporting on suspicious matters, cash transactions above a set threshold and international funds transfer instructions to and from Australia. The failure to comply with these record-keeping and reporting obligations could result in AUSTRAC applying to the Federal Court of Australia for a civil penalty, which could attract a maximum fine of up to A$21 million per breach.

The Bank continues to monitor, manage and implement changes as a result of AML-CTF legislation. See "Summary—Recent Developments—AML-CTF" for a discussion of the recent failure by the Bank to submit TTRs to AUSTRAC in respect of threshold transactions at two of its Stores.

Other Australian regulatory activity

Royal Commission into misconduct in the banking, superannuation and financial services industry

The Royal Commission was announced in December 2017 and concluded on February 1, 2019. The central task of the Royal Commission was to inquire into, and report on, whether any conduct of financial services entities might have amounted to misconduct and whether any conduct, practices, behavior or business activities by those entities fell below community standards and expectations. In the Final Report, which was released publicly on February 4, 2019, the Royal Commission made 76 recommendations, including:

- establishment of a new system for professional discipline for financial advisers and financial services licensees featuring registration, a disciplinary body and conduct reporting requirements;

- introduction of statutory best interest duty on mortgage brokers and a phased prohibition on commissions being paid by lenders to mortgage brokers. To this end, the *National Consumer Credit Protection Amendment (Mortgage Brokers) Bill 2019* has been released;

- the removal of grandfathered arrangements which allow for commissions to continue to be paid to financial advisors who sold financial products prior to the Future of Financial Advice reforms and further review of conflicted remuneration exceptions. To this end, the *Treasury Laws Amendment (Ending Grandfathered Conflicted Remuneration) Bill 2019* has been released;

- the removal of point of sale exemption in the National Consumer Credit Protection Regulations 2010 which currently allows suppliers of goods or services to establish arrangements with an ACL holder and act as loan intermediaries and offer credit products of the ACL holder to purchase those goods or services, without themselves holding an ACL or being appointed as a credit representative of the ACL holder;

- joint administration of the Bank Executive Accountability Regime ("BEAR") by APRA and ASIC, extension of BEAR to all APRA regulated entities, and assignment of accountability for end-to-end management of product design, delivery, maintenance and, where necessary, remediation. To this end, the *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018* has been passed by the Australian Parliament;

- regular ongoing culture reviews by financial services entities into their culture and governance policies and practices, including management of non-financial risks and conduct risks;

- a new statutory scheme for sharing information between APRA and ASIC; and

- a number of measures to enhance APRA and ASIC's oversight of entities' governance, culture and remuneration frameworks and practices and to improve the effectiveness to deter, investigate and penalize misconduct, including a focus in changing the enforcement culture of regulators, with a presumption of more litigation and pursuit of criminal liabilities.

There is broad bipartisan support on most of the 76 recommendations contained in the final report. On February 14, 2019, the Commonwealth Parliament passed a law significantly increasing penalties for corporate and financial sector misconduct and contravention of various corporate legislation. In its response to the final report, the Federal Government has proposed extending BEAR to Australian Financial Services Licence holders and ACL holders, market operators and clearing and settling facilities, as well as to all APRA regulated entities, as recommended. The Royal Commission's recommendations are likely to result in a range of further legislative, regulatory and industry practice changes.

On August 19, 2019, the Federal Government released its Financial Services Royal Commission Implementation Roadmap (the "Implementation Roadmap"). The Implementation Roadmap sets out a timeline for how the Federal Government intends to deliver on the Royal Commission's recommendations. The Implementation Roadmap noted that, of the 76 recommendations made by the Royal Commission, over 40 of the recommendations require legislation to facilitate their implementation. The Federal Government anticipates that it will introduce all necessary legislation to implement the recommendations of the Royal Commission by the end of calendar 2020. The Implementation Roadmap noted that the Federal Government's response represents a comprehensive package of reforms designed to:

- strengthen and expand protections for consumers, small businesses and those in rural and remote communities;

- ensure that the industry has strong, effective regulators;

- enhance the accountability of financial firms, their senior executives and boards; and

- further improve remediation and redress for consumers and small businesses harmed by misconduct.

The governmental, regulatory and industry practice changes that arise as a result of the Royal Commission's recommendations may adversely impact the Bank's (and the Group's) business, operations, compliance costs, financial performance and prospects. The Bank is closely monitoring the responses to these recommendations and will participate in public and industry consultations as appropriate.

The Group has also recently initiated a wide-ranging regulatory program of work in response to Royal Commission recommendations and other key regulatory activity (e.g. the APRA Risk Governance Self-Assessment). The Federal Government has also recently requested that the House of Representatives Standing Committee on Economics expand the existing Parliamentary Committee to also inquire into progress being made by relevant financial institutions in terms of implementing the recommendations of the Royal Commission, and the Bank will closely monitor further developments in this regard.

APRA self-assessment

On May 1, 2018, in the context of the publication of the final report in relation to the prudential inquiry into the Commonwealth Bank of Australia, APRA indicated that all regulated financial institutions would benefit from conducting a self-assessment into their frameworks and practices in relation to governance, culture and accountability. For large financial institutions such as the Group, APRA noted it would be seeking written assessments in relation to these matters that have been reviewed and endorsed by their board. The Group completed its self-assessment and submitted the report to APRA on November 30, 2018. The Group has developed its action plan and is having ongoing discussions with APRA in relation to implementation of the recommendations from the assessment. APRA also released an Information Paper with industry findings released in May 2019, with Suncorp-specific findings also provided by APRA in June 2019.

Australian Major Bank Levy

On May 9, 2017, the Australian Government announced its 2017-2018 Federal Budget, introducing a major bank levy (the "Major Bank Levy") affecting Australia's five largest banks: Commonwealth Bank, ANZ, Westpac, National Australia Bank and Macquarie Bank. The enacting legislation commenced on June 24, 2017. The Major Bank Levy applies to ADIs with licensed entity liabilities of greater than A$100 billion as of July 1, 2017, calculated quarterly as 0.015% of relevant liabilities as at each APRA mandated quarterly reporting date (for an annualized rate of 0.06%). The amount of liabilities on which the Major Bank Levy is payable is the total reported liabilities of the ADI for the quarter, reduced by the sum of the following amounts in relation to each ADI (each calculated for the quarter, in relation to the ADI, and as reported under an "applicable reporting standard" to be determined by APRA): total Additional Tier 1 Capital; total holdings of deposits protected by the Financial Claims Scheme; an amount equal to the lesser of the derivative assets and derivative liabilities; the exchange settlement account balance held with the RBA; and any other amounts of a kind determined by the Minister in a legislative instrument. The Bank currently holds less than A$100 billion of the applicable licensed entity liabilities and, accordingly, is not subject to the Major Bank Levy. However, it is not possible to predict with certainty whether any change in law or change in the Bank's capital position may result in the Major Bank Levy applying to the Bank in the future. It is also possible that other governments may attempt to introduce their own versions of the Major Bank Levy or similar legislation in the future. The Bank will continue to monitor its capital position on a regular basis.

Banking Executive Accountability Regime

In February 2018, the *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018* was passed by the Australian Parliament introducing a new bank executive accountability regime known as "BEAR". The intention behind BEAR is to improve the operating culture of all ADIs and their subsidiaries, and introduce transparency and personal accountability into the banking sector. BEAR imposes obligations on both the ADI and accountable persons. Under BEAR, ADIs have legal obligations to conduct their business with honesty and integrity and to defer the variable remuneration (bonuses) of certain senior executives. With increased powers under BEAR, APRA is able to investigate potential breaches, penalize ADIs and accountable persons, and disqualify persons from the industry for breaching their obligations under the regime. BEAR has applied to large ADIs since July 1, 2018 and to smaller and medium sized institutions (including the Bank) as of July 1, 2019. The Bank believes that it is compliant with BEAR.

Obligations that apply to both ADIs and "accountable persons" under BEAR are to:

- act with honesty, integrity, due skill, care and diligence;

- interact with APRA in an open, cooperative and constructive way; and

- take reasonable steps in conducting business to prevent matters from arising that would adversely affect the ADI's prudential standing or prudential reputation.

On June 28, 2019, APRA released a letter detailing how it intends to achieve heightened and clarified product accountability among senior executives. Specifically, APRA proposes requiring ADIs to identify and register an accountable person to hold end-to-end product responsibility for each product the ADI offers to its customers, including retail, business and institutional customers. A public consultation on the proposed measures remained open until August 30, 2019, with APRA aiming to release a draft schedule for consultation in October 2019, the legislative instrument expected to be finalized in December 2019 and the new requirements implemented by July 1, 2020.

Enhanced criminal and civil penalties for corporate misconduct

In 2017, the ASIC Enforcement Review Taskforce released its Report on ASIC's enforcement regime (the "Taskforce Report"). On April 20, 2018, in response to this report, the Australian Government announced that it will increase and harmonize penalties for the most serious criminal offences under the Australian Corporations Act.

On February 18, 2019, the *Treasury Laws Amendment (Strengthening Corporate and Financial Sector Penalties) Act 2019* was passed by the Australian Parliament to strengthen criminal and civil penalties for corporate and financial sector misconduct. Among other things, this legislation introduced a range of new ordinary criminal offenses to sit alongside the previously existing strict and absolute liability offenses and significantly increased terms of imprisonment, with maximum prison penalties for the most serious offenses increasing to 15 years. These new offenses include breaches of directors' duties, false or misleading disclosure and dishonest conduct. Civil penalties are also increased for both individuals and corporations. The financial penalty for individuals for civil contraventions is increased from A$200,000 to A$1.05 million, or three times the benefit gained/loss avoided from the contravention, whichever amount is greater. For corporations, the maximum pecuniary penalty for civil contraventions is increased to the greater of A$10.5 million, or three times the benefit gained/detriment avoided, or 10% of annual turnover (capped at A$525 million).

ASIC power to ban senior officials in the financial sector

ASIC's Enforcement Review Taskforce consulted on expanding ASIC's existing powers to enable it to ban senior officials in the financial sector from managing a financial services business. The Taskforce Report recommended that ASIC be able to ban a person from performing a specific function, or any function, in a financial services or credit business upon the triggering of an administrative banning power. Further, the Taskforce Report recommended expanding the grounds on which ASIC may ban people from performing roles in financial services and credit businesses to include, among others, situations where ASIC has reason to believe that the person is not fit and proper, not adequately trained, or not competent to provide a financial service or financial services, or to perform the role of officer or senior manager in a financial services business. The Australian Government has accepted both of these recommendations; however it is unclear when any such changes will be incorporated into law. It is currently difficult to determine what impact any such amendments to the Australian Corporations Act and other laws will have on the Bank.

ASIC consultation on responsible lending conduct

On February 14, 2019, ASIC released a consultation paper to update its Regulatory Guide 209 *Credit licensing: Responsible lending conduct* ("RG 209"). RG 209 contains ASIC's expectations for meeting the responsible lending obligations in Chapter 3 of the NCCP Act. Changes in the regulatory environment, technology and the release of the Royal Commission's Final Report have led to the review of ASIC's guidance on responsible lending for consumer credit. ASIC is aiming to receive feedback on its general approach to guidance in this area, what aspects of the current guidance need updating or clarification and whether additional guidance on specific issues should be provided. A response to the submissions is expected to be released in September 2019. ASIC also conducted public hearings in August 2019 on the topic.

Australian Productivity Commission inquiry into competition in the Australian financial system

On August 3, 2018, the Australian Productivity Commission, which is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians, publicly released its inquiry report entitled *"Competition in the Australian Financial System."* The Australian Productivity Commission's report broadly concluded that the Australian financial system may be exposed to use of entrenched market power, resulting in unnecessary fees and low-value products for Australians. The report set out a number of recommendations which include, among others:

- a ban on trail commissions and a restriction on the clawback of commissions from brokers. All brokers, advisers and lender employees who deliver home loans should have a clear legally-backed best interest obligation to their clients;

- all banks should appoint a Principal Integrity Officer to report to the board on how payments made by the institution align with the institution's best interests duty;

- a working group should be established to examine the introduction of a deferred sales model to all sales of add-on insurance;

- merchants should be given the capacity to select the default route that is to be used for payments by dual network cards. The NPP provides an opportunity to set up regulatory arrangements to support competition;

- APRA's prudential measures should be more nuanced to lessen market power and address any imbalance between businesses and housing; and

- the ACCC should be mandated to champion competition in the financial system.

In addition, on March 19, 2018, the Federal Minister for Revenue and Financial Services announced that the Australian federal government's new Statement of Expectations for ASIC will add "consideration of competition" in the financial system to ASIC's mandate. Greater public and official scrutiny of the financial sector and a more restrictive regulatory environment may require the Bank to modify the way in which it does business and may necessitate further review of its policies and processes.

In February 2019 the Final Report of the Royal Commission was released by the Federal Government. The report recommended a best interest duty for mortgage brokers, a ban on trail commissions for new loans and the introduction of a borrower-pays mortgage broker remuneration model. The Bank understands that the Federal Government supports the instruction of a best interest duty, but not a ban on trail commissions or a borrower pays remuneration model. The Council of Financial Regulators and the ACCC will review mortgage broker remuneration in 2022.

On August 17, 2019, the Federal Government released the final report on the capability review of APRA. The review recommended APRA should increase its consideration of competition when making decisions through the creation of a competition champion within APRA.

In July 2019 the Council of Financial Regulators added the recognition of the benefits of competition to its charter when supporting effective regulation.

ASIC powers to intervene in the design and distribution of financial products

Following its release of a consultation paper entitled *"Design and Distribution Obligations and Product Intervention Power – Proposals Paper"* and an exposure draft of the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2017* ("Design and Distribution Bill") for consultation in December 2017, the Australian federal *g*overnment released a revised exposure draft of the Design and Distribution Bill for consultation on July 20, 2018.

The Design and Distribution Bill is intended to promote the provision of suitable financial products to consumers and, where products are inappropriately targeted or sold, to empower ASIC to intervene in the distribution of the product to prevent harm to consumers. The Design and Distribution Bill obligations require issuers of financial products to identify target markets, select appropriate distribution channels, and periodically review the ongoing appropriateness of the financial products, and generally apply to offers of financial products that require disclosure under the Australian Corporations Act or which are exempt from such disclosure due to a mutual recognition scheme. The product intervention power will enable ASIC to proactively reduce the risk of consumers suffering significant detriment from financial and credit products by making a range of orders prohibiting specified conduct in relation to such products. ASIC will have the power to make necessary exemptions and modifications to the new arrangements, including the power to exempt a financial product, or a class of financial products, from all or a specified part of the new regime. ASIC will also be empowered to impose requirements in relation to certain remuneration practices, where such arrangements are contingent upon the achievement of objectives directly related to a financial product. Before it uses its intervention powers, ASIC will be required to comply with procedural requirements relating to consultation and issuance of a public notice with respect to an intervention.

On September 20, 2018, the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018 was introduced into the Australian House of Representatives. The Design and Distribution Bill was also referred to the Senate Economics Legislation Committee for inquiry. On November 9, 2018, the Senate Economics Legislation Committee submitted its report, which noted that contributors to the Committee's inquiry generally welcomed the bill, and addresses concerns raised by the submissions it received and witnesses heard at the public hearings. The Committee in its report recommended that the Design and Distribution Bill be passed.

On April 5, 2019, the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 (the "Design and Distribution Act") received royal assent. Phased in over two years, the Design and Distribution Act will require issuers to identify the consumers for whom their retail financial products are appropriate, and direct distribution to that target market. The Design and Distribution Act also provides ASIC with a new product intervention power, effective immediately, which allows ASIC to intervene where there is a risk of significant consumer detriment.

Further to the commencement of the Design and Distribution Act, on April 6, 2019, ASIC released Consultation Paper 313 in relation to the proposed administration of its new product intervention power. The draft regulatory guide sets out the scope of the power, when and how ASIC expects to use the power, how a product intervention order is made and examples of possible interventions. ASIC is expected to release the final Regulatory Guide in September 2019, and a separate consultation on the Design and Distribution Obligations is expected to commence later in 2019.

Banking Code of Practice

On July 31, 2018, ASIC approved the Code. Each ABA member that has adopted the Code was required to implement the provisions by July 1, 2019. The revised Code is now in force, having introduced many improvements to the way in which banks deliver services and products to customers. The Code is the banking industry's customer charter on best banking practice standards. It sets out the banking industry's key commitments and obligations to customers on standards of practice, disclosure and principles of conduct for their banking services. The Code applies to the Bank's retail and small business customers and includes (but is not limited to): (i) provisions for inclusive and accessible banking, including for customers experiencing vulnerability; (ii) protections for small businesses with loans in default; (iii) protections for loan guarantors, including a three-day period to consider the guarantee before it is made and compelling banks to take enforcement action against the relevant borrower before enforcing the guarantee; (iv) rules requiring credit card customers to receive reminders about balance transfer promotional periods ending, and more consistent treatment about how repayments are applied; and (v) enhanced processes for assisting customers in financial difficulty and processes for resolving complaints.

On June 24, 2019, the ABA published a revised Code which incorporates the following changes: (i) new provisions that put beyond doubt that a bank will not charge fees for services to deceased customers, where services are no longer being produced to that customer's estate; (ii) changes to commitments around provision of valuations to small business customers; and (iii) changes to reflect ASIC's implementation of law reforms to credit card responsible lending. The Bank undertook a comprehensive gap analysis process to confirm how the Code would impact the Bank and worked with stakeholders to identify and embed the changes required to comply with the Code. The Bank has implemented the necessary changes to its systems, policies and processes, to enable compliance with the Code from July 1, 2019.

Further revisions to the Code have been drafted by the ABA and submitted to ASIC and ACCC approval. These amendment intend to implement the recommendations of the Royal Commission and address stakeholder feedback relating to various small business protections, with ABA proposing for these changes to commence from March 1, 2020. The Bank remains an active participant in ongoing industry discussions.

Foreign Account Tax Compliance Act

The Bank is registered as a Compliant Participating Foreign Financial Institution and obtained a Global Intermediary Identification Number via the Internal Revenue Service ("IRS") portal. The Bank currently complies with its compliance and reporting obligations outlined in the Inter-Governmental

Agreement ("IGA") between the Australian Tax Office (Australia's Regulator under the IGA) and the IRS.

Residential Mortgage Product Pricing Inquiry

The ACCC has completed an examination of the processes and procedures around pricing decisions and have previously requested under notice a large amount of information from the Bank including, quantitative portfolio data covering the last three financial years, qualitative information such as factors and considerations concerning pricing decisions, the Bank's view on the impact of the Major Bank Levy on the competitive environment and a significant amount of internal documentation including senior management emails and committee papers. The Bank provided an initial response in January 2018 as scheduled and a further response on February 23, 2018.

The ACCC published an interim report on March 15, 2018. The interim report highlighted a number of issues including a lack of vigorous price competition among major Australian banks and uncertainty as to how to manage the Major Bank Levy (which the Bank is not currently subject to). The final report was published on December 11, 2018 and found, among other things, that: (a) there were no changes in residential mortgage prices offered by major Australian banks, specifically to recover the costs of the Major Bank Levy; (b) the mortgage market was characterized by opaque discretionary pricing practices that cause inefficiency and stifle price competition; (c) compared to the similarities of the big four banks, the other sample banks had diverse approaches to pricing; and (d) some regulatory requirements exacerbated challenges faced by other (non-major) banks as a result of their smaller scale, including their smaller residential mortgage portfolios. The Bank will continue to monitor the impact that the inquiry's final report and any corresponding legislative or regulatory changes may have on the Bank.

Open Banking

On February 9, 2018, the Australian Government released a review into open banking entitled "*Open Banking: customers, choice, convenience, confidence*", which provides guidance on the Australian Government's preferred approach to implementing an open data regime. On May 9, 2018, the Australian Government publicly accepted the recommendations made by the review and undertook to begin a phased implementation of the Open Banking regime from July 1, 2019. As of July 1, 2019, all major banks have been required to make data available on credit and debit card, deposit and transaction accounts, and must do the same in respect of mortgages by February 1, 2020. All non-major banks (including the Bank) will be subject to a 12-month delay on timelines. The Open Banking regime forms the first component of the Australian federal government's "Consumer Data Right" policy ("CDR policy"), which intends to give consumers the right to safely access certain data concerning their personal circumstances held by businesses.

The regime is expected to increase competition among banks while reducing barriers to entry for new providers, allowing customers to benefit from a broader suite of financial products and services. The report indicated that the types of data to be shared will include all current and historical transactional data across deposits and lending products, achieved via application programming interfaces only at a customer's explicit request.

On February 13, 2019, the *Treasury Laws Amendment (Consumer Data Right) Bill 2018* ("CDR Bill") was introduced into Parliament. The CDR framework gives consumers control over their consumer data, enabling them to (among other things) direct the data holder to provide their data, in a CDR compliant format, to accredited data recipients including other banks, telecommunications providers, energy companies or companies providing comparison services. The CDR Bill will primarily amend the *Competition and Consumer Act 2010* but will also consequentially amend the *Privacy Act*

1988 and the *Australian Information Commissioner Act 2010*. The Bank's Program Management Office has appointed a dedicated program manager to co-ordinate the required steps to meet the legislative requirements. Activities are underway to explore the main customer journeys and identify key considerations, which will support the development of a robust discovery plan and timeline.

ASIC consultation on proposed changes to the capital requirements for market participants

On July 4, 2018, ASIC released a consultation paper proposing changes to the capital requirements for market participants, which prescribe the minimum amount of capital a participant must hold. Market participants (other than principal traders or clearing participants) of the ASX, ASX 24, Chi-X, NSXA and FEX markets are subject to the financial requirements of the ASIC capital market integrity rules. The consultation paper set out the proposals to improve and simplify the capital requirements, including further consolidation of the two market integrity capital rulebooks into a single capital rulebook (the ASIC Market Integrity Rules (Capital) 2018). ASIC proposed to increase the minimum core capital requirement for securities market participants to A$500,000, as well as introducing new rules such as an underwriting risk requirement. ASIC intended to release the feedback report and finalize the ASIC capital market integrity rules in February 2019, with the ASIC capital market integrity rules intended to commence in 2019. ASIC also intended for the regulatory guide to be released in 2019. The Bank and the Group will continue to monitor developments in relation to the proposed changes.

ASIC enforcement personnel in banks

On August 7, 2018, the Australian Government announced that ASIC shall receive additional funding to support its enforcement capabilities and enable it to undertake new regulatory activities and investigations. Part of this funding is intended to be used to implement a new supervisory approach in respect of Australia's five largest financial institutions, which will involve ASIC embedding its own staff within these institutions to monitor governance and compliance actions. While there are no immediate plans for ASIC employees to be embedded within the Bank, it is possible that this, or other similar regulatory measures, may be implemented in future.

ASIC's guidance on code of ethics compliance schemes for financial advisers

On September 28, 2018, ASIC released guidance on its proposed approach to approving and overseeing compliance schemes for financial advisers ("Regulatory Guide 269 Approval and oversight of compliance schemes for financial advisers"). From January 1, 2020, all financial advisers must be covered by an ASIC-approved compliance scheme under which their compliance with a new single, uniform code of ethics will be monitored and enforced. Regulatory Guide 269 sets out, among other things, ASIC's process and criteria for determining whether to grant approval to a compliance scheme. A code of ethics was developed by the Financial Adviser Standards and Ethics Authority ("FASEA"), with consultation on an exposure draft of the code of ethics having closed on June 1, 2018. The *Financial Planners and Advisers Code of Ethics 2019* was released by FASEA on February 8, 2019. The new code incorporates 12 ethical standards, which are split into four broad categories, namely ethical behavior, client care, quality process and professional commitment.

Insolvency reform

On September 18, 2017, the Australian Government passed reforms to Australian insolvency laws, including the introduction of an "*ipso facto*" moratorium. The new *ipso facto* regime came into effect in Australia on July 1, 2018 and will apply to *ipso facto* rights arising under contracts, agreements or arrangements entered into after July 1, 2018, subject to certain exclusions. On June 21, 2018, the

Australian federal government introduced regulations setting out the types of contracts and contractual rights which will be excluded from the stay.

The regulations provide, among other things, that any *ipso facto* rights under a contract, agreement or arrangement that is or governs securities, financial products, bonds or promissory notes will be exempt from the moratorium. Furthermore, a contract, agreement or arrangement under which a party is or may be liable to subscribe for, or to procure subscribers for, securities, financial products, bonds or promissory notes is also excluded from the stay. Accordingly, the regulations should exclude the Notes and certain other related arrangements from the stay. As the legislation and the regulations are new to the insolvency regime in Australia, they have not been the subject of judicial interpretation. If the regulations are determined not to exclude the Notes or related arrangements from their operation under the exclusions mentioned above or any other exclusion, provisions of the Notes or related arrangements conditioned solely on the occurrence of events giving rise to ipso facto rights and may be unenforceable in Australia.

Review into unfair contract terms for small business

On November 22, 2018, the Australian Treasury released a discussion paper and announced that the Australian federal government is undertaking a review of the current legislative protections provided to small businesses regarding unfair contract terms. Feedback received will assist the Government to determine whether the legislative protections are performing as intended and whether enhancements are required to the unfair contract terms regime to ensure appropriate protections are afforded to small businesses. Submissions were open on the discussion paper until December 21, 2018, and the Bank will continue to monitor developments including the Australian Government's response.

Australian Business Securitisation Fund

On November 14, 2018, the Australian federal government announced that a A$2 billion Australian Business Securitisation Fund (the "ABSF") will be established to invest in warehouse facilities and securitizations backed by SME loans, providing additional funding to smaller banks and non-bank lenders to on-lend to SMEs on more competitive terms. On February 13, 2019, the *Australian Business Securitisation Fund Bill 2019* was introduced into Federal Parliament to establish the ABSF. The ABSF will be administered by the Australian Office of Financial Management, and is aimed at boosting competition in the SME lending market and improving access to, and the price of, finance available to businesses in the SME market.