Suncorp-Metway Limited and subsidiaries
ABN 66 010 831 722

Consolidated interim financial report

For the half-year ended 31 December 2019

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Directors' Report

The directors present their report together with the consolidated interim financial report of the consolidated entity (the **Group**), being Suncorp-Metway Limited (the **Company**) and its subsidiaries for the half-year ended 31 December 2019 and the auditor's review report thereon. Terms that are defined appear in bold the first time they are used.

1. Directors

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

Non-executive

Christine F McLoughlin (Chairman)	Director since 2015, Chairman since 2018
Audette E Exel AO	Director since 2012
Sally A Herman	Director since 2015
Simon C Machell	Director since 2017
Dr Douglas F McTaggart	Director since 2012
Lindsay J Tanner	Director since 2018
Sylvia Falzon	Director since 2018
Ian L Hammond	Director since 2018
Elmer Funke Genaamd Kupper	Appointed 1 January 2020

Executive

Steve Johnston (Group CEO and Managing Director)	Appointed 9 September 2019 (Acting CEO since 26 May 2019)

2. Dividends

A 2019 final dividend on ordinary shares of $164 million (58 cents per share) was paid on 20 August 2019. The Company paid dividends on capital notes totalling $10 million during the half-year.

A 2020 interim dividend on ordinary shares of $158 million (56 cents per share) has been determined by the directors.

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

3. Review of operations

3.1. Overview of the Group

The Group delivered net profit after tax attributable to owners of the Company of $168 million for the half-year ended 31 December 2019 (December 2018: $180 million). The result benefitted from a stable net interest income and low credit impairment losses, offset by elevated operating expenses.

3.2. Financial position and capital structure

Net assets of the Group are $4,156 million (June 2019: $4,043 million). The movement was a result of total comprehensive income for the period of $181 million and the issue of new ordinary shares of $106 million, offset by dividend payments of $164 million on ordinary shares and $10 million on capital notes.

The regulatory Common Equity Tier 1 ratio continued to be strong at 9.67% (June 2019: 9.25%), above the target operating range of 9% - 9.5% of Risk Weighted Assets.

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

3.3. Review of principal businesses

Net interest income increased 1.5% to $594 million (December 2018: $585 million), resulting in the net interest margin increasing by 2 basis points to 1.92%. This was primarily driven by the favourable shift in the funding mix from growth in at-call deposits.

Operating expenses increased 7.3% to $369 million (December 2018: $344 million), due to investment in regulatory change, risk and compliance and system enhancements. Investment in digital capability continues with new payment and self-service options introduced over the half-year. Operating expenses were partially offset by savings from operational efficiency programs.

Impairment losses on loans and advances of $1 million (December 2018: $7 million) remain well below the historical operating range of 10-20 basis points. The through the cycle operating range has been adjusted to 5-15 basis points of gross loans and advances, reflecting the long-term view of the lending portfolio and benign external environment.

Loans and advances decreased 1.4% to $58,354 million (June 2019: $59,154 million), reflecting low system growth and elevated processing times, particularly within the broker network. The business lending portfolio contracted 1.3% over the half-year, primarily driven by a reduction in agribusiness lending reflecting ongoing drought conditions. The commercial portfolio reduced marginally, driven by early project completion and increased customer repayments.

Deposits and short-term borrowings increased 1.4% to $47,202 million (June 2019: $46,551 million). An increase in at-call deposits of 11.8% to $25,154 million (June 2019: $22,502 million) was primarily driven by continued momentum from improved digital capabilities delivered over the last three years. At the same time, the Group optimised the customer deposit portfolio and reduced reliance on relatively more expensive term deposit funding, which reduced by 11.6% to $14,496 million (June 2019: $16,401 million). The contraction in the term deposit portfolio is a direct response to the strong growth in the at-call portfolio. The Group's deposit-to-loan ratio of 67.8% remains within the target operating range of 60% to 70%. The Group will focus on further enhancing digital functionality and the customer onboarding experience.

4. Events subsequent to reporting date

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

5. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the half-year ended 31 December 2019.

6. Rounding of amounts

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

Signed in accordance with a resolution of the directors.

Christine McLoughlin

CHRISTINE MCLOUGHLIN
Chairman of the Board

STEVE JOHNSTON
Group CEO and Managing Director

11 February 2020

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

To the Directors of Suncorp-Metway Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Suncorp-Metway Limited for the half-year ended 31 December 2019 there have been:

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

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

KPMG

KPMG

Scott Guse

Partner

Brisbane

11 February 2020

Consolidated interim statement of comprehensive income

For the half-year ended 31 December 2019

	Note	Dec 2019 $M	Dec 2018 $M
Interest income	5.1	1,123	1,292
Interest expense	5.1	(529)	(707)
Net interest income	5.1	594	585
Other operating income	5.2	16	23
Total net operating income		610	608
Operating expenses		(369)	(344)
Impairment loss on financial assets	7.2	(1)	(7)
Profit before income tax		240	257
Income tax expense		(72)	(77)
Profit for the period attributable to owners of the Company		168	180
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges		21	10
Net change in fair value of investment securities		(3)	(6)
Income tax expense		(5)	(3)
Total other comprehensive income for the period		13	1
Total comprehensive income for the period attributable to owners of the Company		181	181

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

Consolidated interim statement of financial position

As at 31 December 2019

	Note	Dec 2019 $M	Jun 2019 $M
Assets			
Cash and cash equivalents		1,529	638
Receivables due from other banks		470	499
Trading securities		897	1,227
Derivatives		543	593
Investment securities		3,926	3,954
Loans and advances	6	58,354	59,154
Due from related parties		372	357
Deferred tax assets		34	42
Other assets		180	191
Total assets		66,305	66,655
Liabilities			
Payables due to other banks		289	353
Deposits and short-term borrowings	8	47,202	46,551
Derivatives		417	409
Payables and other liabilities		256	419
Due to related parties		30	14
Provisions		3	5
Securitisation liabilities	9	3,396	3,831
Debt issues	9	9,884	10,358
Subordinated notes	9	672	672
Total liabilities		62,149	62,612
Net assets		4,156	4,043
Equity			
Share capital	10	2,754	2,648
Capital notes	11	585	585
Reserves		(264)	(259)
Retained profits		1,081	1,069
Total equity attributable to owners of the Company		4,156	4,043

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

Consolidated interim statement of changes in equity

For the half-year ended 31 December 2019

	Note	Share capital $M	Capital notes $M	Reserves $M	Retained profits $M	Total equity $M
Balance as at 1 July 2018		2,648	550	(298)	969	3,869
Impact on initial application of AASB 9 (net of tax)		-	-	16	(23)	(7)
Profit for the period		-	-	-	180	180
Total other comprehensive income for the period		-	-	1	-	1
Total comprehensive income for the period		-	-	17	157	174
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(87)	(87)
Transfers		-	-	14	(14)	-
Balance as at 31 December 2018		2,648	550	(267)	1,025	3,956
Balance as at 1 July 2019		2,648	585	(259)	1,069	4,043
Profit for the period		-	-	-	168	168
Total other comprehensive income for the period		-	-	13	-	13
Total comprehensive income for the period		-	-	13	168	181
Transactions with owners, recorded directly in equity						
Shares issued	10	106	-	-	-	106
Dividends paid	3	-	-	-	(174)	(174)
Transfers		-	-	(18)	18	-
Balance as at 31 December 2019		2,754	585	(264)	1,081	4,156

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

Consolidated interim statement of cash flows

For the half-year ended 31 December 2019

	Note	Dec 2019 $M	Dec 2018 $M
Cash flows from operating activities			
Interest received		1,143	1,289
Interest paid		(576)	(689)
Fees and other operating income received		107	90
Fees and operating expenses paid		(610)	(500)
Reimbursement to related parties for income tax payments		(47)	(54)
Net movement in operating assets			
Trading securities		329	89
Loans and advances		784	(449)
Net movement in operating liabilities			
Net movement in amounts due to related parties		19	16
Deposits and short-term borrowings		669	479
Net cash from operating activities		1,818	271
Cash flows from investing activities			
Proceeds from the sale or maturity of investment securities		656	1,019
Payments for acquisition of investment securities		(556)	(775)
Net cash from investing activities		100	244
Cash flows from financing activities			
Proceeds from debt issues and securitisation liabilities	9	1,200	1,701
Repayment of debt issues and securitisation liabilities	9	(2,124)	(1,689)
Payments for the buy back and issue of subordinated notes	9	-	(70)
Proceeds from issue of ordinary shares	10	106	-
Dividends paid	3	(174)	(87)
Net cash (used in) financing activities		(992)	(145)
Net increase in cash and cash equivalents		926	370
Cash and cash equivalents at the beginning of the period		784	832
Cash and cash equivalents at the end of the period		1,710	1,202
Cash and cash equivalents at the end of the period comprises:			
Cash and cash equivalents		1,529	1,124
Receivables due from other banks		470	351
Payables due to other banks		(289)	(273)
		1,710	1,202

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

Notes to the consolidated interim financial statements

For the half-year ended 31 December 2019

1. Reporting entity

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

The consolidated interim financial statements for the half-year ended 31 December 2019 comprise the Company and its subsidiaries (the **Group**) and were authorised for issue by the Board of Directors on 11 February 2020.

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

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

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

2. Basis of preparation

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

The consolidated interim financial report does not include all of the information required for a full consolidated annual financial report, and should be read in conjunction with the consolidated financial report of the Group for the financial year ended 30 June 2019 and any public announcements made by the Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Australian Securities Exchange (**ASX**) Listing Rules. The consolidated financial report of the Group for the financial year ended 30 June 2019 is available upon request from the Company's registered office or at suncorpgroup.com.au/investors/reports.

All accounting policies applied by the Group in this consolidated interim financial report are the same as those applied in its consolidated financial report for the financial year ended 30 June 2019.

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

Where necessary, comparatives have been re-presented to conform to changes in presentation in the current half-year.

2.1 Use of estimates and judgments

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

The significant judgments made by management in applying the Group accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial report as at and for the financial year ended 30 June 2019.

The changes in estimates and the movements over the half-year ended 31 December 2019 for the provision for impairment and gross carrying amount of loans and advances in different expected credit loss (ECL) stages are set out in note 7.

3. Dividends

		Dec 2019		Dec 2018	
	Note	Cents per share[1]	$M	Cents per share[1]	$M
Dividend payments on ordinary shares					
2019 final dividend (December 2018: 2018 final dividend)		58	164	28	76
Dividend payments on capital notes	11		10		11
Total dividends			174		87
Dividends not recognised in the consolidated interim statement of financial position					
Dividends determined since balance date					
2020 interim dividend (December 2018: 2019 interim dividend)		56	158	46	126
			158		126

1 Cents per share is rounded to the nearest cent.

4. Segment reporting

The basis of segmentation and basis of measurement of segment results are the same as those applied by the Group in its consolidated financial report for the financial year ended 30 June 2019.

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

5. Net operating income

5.1. Net interest income

	Dec 2019 $M	Dec 2018 $M
Interest income		
Cash and cash equivalents	2	3
Receivables due from other banks	1	1
Trading securities	7	15
Investment securities	54	65
Loans and advances	1,059	1,208
Total interest income	1,123	1,292
Interest expense		
Deposits and short-term borrowings:		
at amortised cost	(314)	(420)
designated at fair value through profit and loss	(19)	(27)
Derivatives	(4)	(16)
Securitisation liabilities	(43)	(73)
Debt issues	(138)	(155)
Subordinated notes	(11)	(16)
Total interest expense	(529)	(707)
Net interest income	594	585

5.2. Other operating income

	Dec 2019 $M	Dec 2018 $M
Banking fee and commission income	91	90
Banking fee and commission expense	(74)	(73)
Net banking fee and commission income	17	17
Net gains (losses) on:		
Trading securities at fair value through profit and loss	(1)	2
Financial liabilities at fair value through profit and loss	1	2
Derivative financial instruments at fair value through profit and loss	(3)	-
Amount recycled into profit and loss on derecognition of investment securities at fair value through other comprehensive income	2	-
Other revenue	-	2
	(1)	6
Total other operating income	16	23

6. Loans and advances

	Note	Dec 2019 $M	Jun 2019 $M
Financial assets at amortised cost			
Housing loans		47,157	47,811
Consumer loans		152	149
Retail loans		47,309	47,960
Business loans		11,181	11,333
Other lending		-	3
Non-retail loans		11,181	11,336
Gross loans and advances		58,490	59,296
Provision for impairment	7.1	(136)	(142)
Net loans and advances		58,354	59,154
Current		11,202	11,127
Non-current		47,152	48,027
Net loans and advances		58,354	59,154

7. Provision for impairment on financial assets

7.1 Reconciliation of provision for impairment on financial assets

The table below shows the reconciliation of the ECL for the half-year ended 31 December 2019.

	Collective provision				
	Stage 1 - 12-month ECL $M	Stage 2 - Lifetime ECL $M	Stage 3 - Lifetime ECL $M	Stage 3 - Specific provision $M	Total $M
Provision for impairment on loans and advances					
As at 1 July 2018	37	37	29	39	142
Transfers:					
Transfer to stage 1	7	(6)	(1)	-	-
Transfer to stage 2	(1)	6	(5)	-	-
Transfer to stage 3	-	(4)	1	3	-
New and increased provisions	13	16	15	8	52
Write-back of provisions no longer required	(21)	(14)	(6)	(8)	(49)
Specific provisions written-off	-	-	-	(6)	(6)
Unwind of discount	-	-	-	(2)	(2)
As at 31 December 2018	35	35	33	34	137
Transfers:					
Transfer to stage 1	8	(6)	(2)	-	-
Transfer to stage 2	(2)	7	(5)	-	-
Transfer to stage 3	-	(4)	2	2	-
New and increased provisions	4	4	4	5	17
Write-back of provisions no longer required	(9)	-	-	(5)	(14)
Specific provisions written-off	-	-	-	(3)	(3)
Unwind of discount	-	-	-	(2)	(2)
As at 30 June 2019	36	36	32	31	135
Transfers:					
Transfer to stage 1	9	(8)	(1)	-	-
Transfer to stage 2	(1)	5	(4)	-	-
Transfer to stage 3	-	(4)	-	4	-
New and increased provisions	14	14	10	8	46
Write-back of provisions no longer required	(22)	(12)	(8)	(4)	(46)
Specific provisions written-off	-	-	-	(4)	(4)
Unwind of discount	-	-	-	(2)	(2)
As at 31 December 2019	36	31	29	33	129
Provision for impairment on commitments and guarantees					
As at 1 July 2018	7	1	-	-	8
New and increased provisions	3	1	-	-	4
Write-back of provisions no longer required	(4)	-	-	-	(4)
As at 31 December 2018	6	2	-	-	8
Write-back of provisions no longer required	-	(1)	-	-	(1)
As at 30 June 2019	6	1	-	-	7
New and increased provisions	3	-	-	-	3
Write-back of provisions no longer required	(3)	-	-	-	(3)
As at 31 December 2019	6	1	-	-	7
Total provision for impairment					
As at 31 December 2018	41	37	33	34	145
As at 30 June 2019	42	37	32	31	142
As at 31 December 2019	42	32	29	33	136

Reconciliation of gross carrying amount of loans and advances

The following table shows the effect of movements in the gross carrying amount of loans and advances in different stages during the half-year ended 31 December 2019.

	Stage 1 - 12-month ECL $M	Stage 2 - Lifetime ECL $M	Stage 3 - Lifetime collective ECL $M	Stage 3 - Specific provision $M	Total $M
Gross carrying amount as at 1 July 2018	56,130	1,907	568	123	58,728
Transfers:					
Transfer to stage 1	591	(568)	(22)	(1)	-
Transfer to stage 2	(945)	1,075	(130)	-	-
Transfer to stage 3	(95)	(198)	270	23	-
New loans and advances originated or purchased	4,904	-	-	-	4,904
Loans and advances derecognised during the period including write-offs	(4,128)	(223)	(77)	(28)	(4,456)
Gross carrying amount as at 31 December 2018	56,457	1,993	609	117	59,176
Provision for impairment	(41)	(37)	(33)	(34)	(145)
Net carrying amount as at 31 December 2018	56,416	1,956	576	83	59,031
Gross carrying amount as at 1 January 2019	56,457	1,993	609	117	59,176
Transfers:					
Transfer to stage 1	714	(676)	(38)	-	-
Transfer to stage 2	(797)	928	(130)	(1)	-
Transfer to stage 3	(94)	(200)	282	12	-
New loans and advances originated or purchased	3,567	-	-	-	3,567
Loans and advances derecognised during the period including write-offs	(3,216)	(140)	(85)	(6)	(3,447)
Gross carrying amount as at 30 June 2019	56,631	1,905	638	122	59,296
Provision for impairment	(42)	(37)	(32)	(31)	(142)
Net carrying amount as at 30 June 2019	56,589	1,868	606	91	59,154
Gross carrying amount as at 1 July 2019	56,631	1,905	638	122	59,296
Transfers:					
Transfer to stage 1	668	(641)	(27)	-	-
Transfer to stage 2	(808)	949	(140)	(1)	-
Transfer to stage 3	(94)	(177)	248	23	-
New loans and advances originated or purchased	4,529	-	-	-	4,529
Loans and advances derecognised during the period including write-offs	(5,018)	(217)	(80)	(20)	(5,335)
Gross carrying amount as at 31 December 2019	55,908	1,819	639	124	58,490
Provision for impairment	(42)	(32)	(29)	(33)	(136)
Net carrying amount as at 31 December 2019	55,866	1,787	610	91	58,354

7.2 Impairment loss on financial assets

	Half-year to		
	Dec 2019 $M	Jun 2019 $M	Dec 2018 $M
Decrease in collective provision for impairment	(8)	-	-
Increase in specific provision for impairment	8	2	3
Bad debts written off	2	5	4
Bad debts recovered	(1)	(1)	-
Total impairment loss on loans and advances	1	6	7

8. Deposits and short-term borrowings

	Dec 2019 $M	Jun 2019 $M
Financial liabilities at amortised cost		
Call deposits	25,154	22,502
Term deposits	14,496	16,401
Short-term securities issued	5,154	5,376
Total financial liabilities at amortised cost	44,804	44,279
Financial liabilities designated at fair value through profit or loss		
Offshore commercial papers	2,398	2,272
Total deposits and short-term borrowings	47,202	46,551
Current	46,964	46,320
Non-current	238	231
Total deposits and short-term borrowings	47,202	46,551

Deposits and short-term borrowings obtained under repurchase agreements with the Reserve Bank of Australia and outstanding at 31 December 2019 are $301 million (30 June 2019: $302 million).

9. Issues and repayments of debt securities

	Liabilities arising from financing activities		
	Securitisation liabilities $M	Debt issues $M	Subordinated notes $M
Balance as at 1 July 2018	4,848	9,854	742
Cash flows			
Proceeds	-	1,701	-
Repayments[1]	(571)	(1,118)	(70)
Non-cash changes	1	165	-
Balance as at 31 December 2018	4,278	10,602	672
Cash flows			
Proceeds	-	1,416	-
Repayments	(449)	(1,765)	-
Transaction costs	-	(5)	-
Non-cash changes	2	110	-
Balance as at 30 June 2019	3,831	10,358	672
Cash flows			
Proceeds	-	1,200	-
Repayments	(437)	(1,687)	-
Transaction costs	-	(2)	-
Non-cash changes	2	15	-
Balance as at 31 December 2019	3,396	9,884	672

1 On 22 November 2018, the Company redeemed $670 million of Tier 2 subordinated notes. On the same day, the Company issued $600 million of subordinated notes for $10,000 per note. The redemption and issue of the subordinated notes were net settled resulting in a cash outflow of $70 million.

10. Share capital

On 20 August 2019, 10,680,000 new ordinary shares were issued at an issue price of $10 per share to the parent entity, SBGH Limited. There have been no other issues or buy-backs of issued capital during the current or prior half-year. As at 31 December 2019, the number of ordinary shares on issue was 282,147,584 (30 June 2019: 271,467,584).

11. Capital notes

	Dec 2019 No of notes	Dec 2019 $M	Jun 2019 No of notes	Jun 2019 $M
Issued on 5 May 2017	3,750,000	375	3,750,000	375
Issued on 18 December 2017	1,750,000	175	1,750,000	175
Issued on 27 May 2019	350,000	35	350,000	35
Balance at the end of the financial period	5,850,000	585	5,850,000	585

	Dec 2019 Cents per note[1]	Dec 2019 $000	Dec 2018 Cents per note[1]	Dec 2018 $000
Dividend payments on capital notes				
Issued on 5 May 2017				
September quarter	95	3,573	108	4,032
December quarter	90	3,362	105	3,942
Issued on 18 December 2017				
September quarter	87	1,528	100	1,744
December quarter	82	1,431	97	1,702
Issued on 27 May 2019				
September quarter	87	306	-	-
December quarter	82	286	-	-
Total dividend payments on capital notes		10,486		11,420

1 Cents per note is rounded to the nearest cent.

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

12. Fair value of financial instruments

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

- Level 1: derived from quoted prices (unadjusted) in active markets for identical financial instruments that the Group can access at the measurement date.
- Level 2: derived from other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.
- Level 3: fair value measurement is not based on observable market data. The valuation techniques include the use of discounted cash flow models.

Financial assets and liabilities measured at fair value

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

		Dec 2019				Jun 2019			
	Note	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets									
Trading securities		37	860	-	897	-	1,227	-	1,227
Investment securities		-	3,926	-	3,926	-	3,954	-	3,954
Derivatives		1	542	-	543	1	592	-	593
		38	5,328	-	5,366	1	5,773	-	5,774
Financial liabilities									
Offshore commercial papers[1]	8	-	2,398	-	2,398	-	2,272	-	2,272
Derivatives		-	417	-	417	1	408	-	409
		-	2,815	-	2,815	1	2,680	-	2,681

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

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

Financial assets and liabilities not measured at fair value

The table below discloses a comparison of carrying value and fair value of financial assets and liabilities that are not measured at fair value after initial recognition, where their carrying value is not a reasonable approximation of fair value. The significant assumptions and estimates used in determining their fair values are consistent with those used in the financial year ended 30 June 2019.

		Carrying value	Fair value			
	Note	$M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 31 December 2019						
Financial assets						
Loans and advances	6	58,354	-	-	58,494	58,494
		58,354	-	-	58,494	58,494
Financial liabilities						
Deposits and short-term borrowings at amortised cost	8	44,804	-	44,844	-	44,844
Securitisation liabilities	9	3,396	-	3,408	-	3,408
Debt issues	9	9,884	-	10,027	-	10,027
Subordinated notes	9	672	-	668	-	668
		58,756	-	58,947	-	58,947
As at 30 June 2019						
Financial assets						
Loans and advances	6	59,154	-	-	59,325	59,325
		59,154	-	-	59,325	59,325
Financial liabilities						
Deposits and short-term borrowings at amortised cost	8	44,279	-	44,355	-	44,355
Securitisation liabilities	9	3,831	-	3,840	-	3,840
Debt issues	9	10,358	-	10,499	-	10,499
Subordinated notes	9	672	-	664	-	664
		59,140	-	59,358	-	59,358

13. Related parties

Arrangements for related parties continue to be in place as disclosed in the Group's consolidated financial report for the financial year ended 30 June 2019.

14. Contingent liabilities

There are contingent liabilities facing the Group in respect of the matters below. To the extent these costs can be reliably estimated, they have been reflected as part of the Group's provisions. Other than as provided for, the Group is of the opinion that the outcome and total costs arising from these matters remain uncertain at this time.

Regulatory and internal reviews

Reviews and enquiries from regulators may result in investigation costs, administrative costs, legal costs and compensation and / or remediation payments (including interest) or fines. In addition, the Group conducts internal reviews of its regulatory compliance which have resulted in disclosures to the regulators and may result in similar costs. To the extent these costs can be reliably estimated, those payments have been reflected as part of the Group's provisions.

During the half-year, a number of regulators including ASIC, Australian Prudential Regulation Authority (**APRA**), Australian Transaction Reports Analysis Centre (**AUSTRAC**) and the Australian Taxation Office (**ATO**) conducted reviews and enquiries with the Group. There were a number of non-compliance instances identified and disclosed by the Group to APRA, some of which required resubmissions of prudential returns.

It remains uncertain what other regulatory or internal reviews or notifications of non-compliance may arise or may be required.

An assessment of the likely cost to the Group of these reviews and actions has been made on a case by case basis but cannot always be reliably estimated. To the extent that the potential impact can be reliably estimated the amount has been provisioned.

Customer complaints

The Australian Financial Complaints Authority (**AFCA**) has the power to award compensation up to certain thresholds on complaints raised by customers. The Group is working through the individual cases that have been raised to AFCA.

An assessment of the likely cost to the Group of these matters has been made on a case by case basis but cannot always be reliably estimated. To the extent that the potential impact can be reliably estimated the amount has been provisioned.

Royal Commission

The 2019 report of the Royal Commission into Misconduct in the Banking Superannuation and Financial Services Industry (**Royal Commission**) set out 76 policy recommendations to strengthen protections for consumers, small business and rural and regional communities. A comprehensive program of work is currently underway to implement the reforms that have resulted from the recommendations and to enhance our focus on culture and compliance matters. The Government's program in response to the recommendations of the Royal Commission continues to evolve. The Group will monitor and respond to any additional legislation and regulatory activity that may arise as a result of this program. The Group is accordingly of the opinion that at this time the outcome and total costs which may arise from regulatory reform remain uncertain.

Litigation

There are outstanding court proceedings, claims and possible claims against the Group, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Group does not consider the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, likely to have a material effect on its operations or financial position.

An assessment of the likely cost to the Group of these matters has been made on a case by case basis but cannot always be reliably estimated. To the extent that the potential impact can be reliably estimated the amount has been provisioned.

Customer remediation

In response to both regulatory and internal reviews, the Group is currently undertaking a number of programs of work to resolve prior issues that have the potential to impact customers. An assessment of the Group's likely loss has been considered on a case by case basis. To the extent that the potential impact can be reliably estimated the amount has been provisioned.

Contingent liabilities may exist in respect of actual or potential claims, compensation payments and / or remediation payments (including interest) identified as part of existing programs of work or as part of future programs responding to regulatory or internal reviews. The outcomes and total costs associated with these reviews and possible exposures remain uncertain.

Tax

The Group is subject to regular reviews by the ATO and other revenue authorities of its taxation treatment which may result in additional tax liability or tax refund. The Group engages with these authorities and provides responses as requested. To the extent reasonably possible, the Group has recognised its tax payable as a current tax liability. There are no current disputes with the ATO.

Other

Since October 2019, Australia has been impacted by severe weather and natural hazards that have led to extensive damage and impacts to some of the Group's customers. During the half-year, the Group has responded to these events by announcing relief packages to provide customers with flexible finance options. As at 31 December 2019, the Group has provided for its expected credit losses from these events as part of its impairment provision on loan and advances in note 7.1. As natural hazards and weather events are still unfolding there is an element of uncertainty on the Group's potential exposure until more information surrounding these events is available.

Subsidiaries act as trustee for various trusts. In this capacity, the subsidiaries are liable for the debts of the trusts and are entitled to be indemnified out of the trust assets for all liabilities incurred on behalf of the trusts.

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

15. Subsequent events

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

Directors' declaration

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

1) The consolidated interim financial statements and notes set out on pages 5 to 18, are in accordance with the *Corporations Act 2001*, including:

   a. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

   b. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*; and

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

Signed in accordance with a resolution of the directors:

CHRISTINE MCLOUGHLIN	**STEVE JOHNSTON**
Chairman of the Board	Group CEO and Managing Director
11 February 2020	

Independent Auditor's Review Report

To the shareholder of Suncorp-Metway Limited

Conclusion

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

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

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

- Consolidated interim statement of financial position as at 31 December 2019;
- Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date;
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' declaration.

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

Responsibilities of the Directors for the Consolidated interim financial report

The Directors of the Company are responsible for:

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

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

Our responsibility is to express a conclusion on the Consolidated interim financial report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Consolidated interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Suncorp-Metway Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

KPMG

Scott Guse
Partner

Brisbane
11 February 2020