

Suncorp Covered Bond Trust

ABN 14 274 852 576

Financial report
for the financial year ended 30 June 2019

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STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2019

	2019	2018
	\$	\$
Revenue		
Interest income on secured loan	106,595,234	90,355,282
Interest income on cash and cash equivalents	4,022,623	3,619,669
Other income on secured loan	1,901,020	2,097,799
Total revenue	112,518,877	96,072,750
Expenses		
Interest expense	(92,412,015)	(86,447,974)
Cash manager and Administrative agent fee	(1,976,620)	(1,864,832)
Covered bond guarantee fee	(201,307)	(172,684)
Impairment loss on financial assets	(1,221,786)	-
Total expenses	(95,811,728)	(88,485,490)
Profit before distribution expense	16,707,149	7,587,260
Servicing fee	(5,647,486)	(5,328,093)
Residual income rights	(11,059,663)	(2,259,167)
Total distribution expense	(16,707,149)	(7,587,260)
Profit before tax	-	-
Income tax expense	-	-
Profit for the financial year attributable to the unitholders of the Trust	-	-
Total comprehensive income for the financial year attributable to the unitholders of the Trust	-	-

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	2019 \$	2018 \$
Assets			
Cash and cash equivalents		509,014	644,153,302
Secured loan income receivable		4,610,720	2,542,767
Related party receivable		63,949,463	41,709,567
GST receivable		142,865	102,611
Secured loan	3	2,968,574,973	1,534,030,383
Total assets		3,037,787,035	2,222,538,630
Liabilities			
Payables	4	1,710,018	1,246,236
Interest payable		7,759,647	6,683,433
Distribution payable		8,317,350	4,608,941
Interest-bearing liabilities	5	3,020,000,000	2,210,000,000
Total liabilities excluding outstanding units		3,037,787,015	2,222,538,610
Units on issue	6	20	20
Total liabilities		3,037,787,035	2,222,538,630
Net assets		-	-
Equity			
Unitholders funds		-	-

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

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2019

As the Trust has no equity, the Trust has not included any items of changes in equity for the current or comparative year.

STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2019

	Note	2019 \$	2018 \$
Cash flows from operating activities			
Secured loan interest income receipts		110,940,714	117,346,360
Other operating income received		6,362,606	5,371,418
Interest paid on interest-bearing liabilities		(100,375,283)	(103,588,035)
Distribution paid		(9,712,796)	(12,242,195)
Fees paid		(2,620,539)	(2,705,290)
Cash advanced under secured loan		(1,458,238,990)	1,428,493,654
Net cash from operating activities	7	(1,453,644,288)	1,432,675,912
Cash flows from financing activities			
Repayment of interest bearing liabilities		-	(1,090,000,000)
Cash received from funding of interest bearing liabilities		810,000,000	300,000,000
Net cash used in financing activities		810,000,000	(790,000,000)
Net increase (decrease) in cash and cash equivalents		(643,644,288)	642,675,912
Cash and cash equivalents at the beginning of the financial year		644,153,302	1,477,390
Cash and cash equivalents at end of the financial year		509,014	644,153,302

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2019

1. Reporting entity

The Suncorp Covered Bond Trust (the **Trust**) is a Trust domiciled in Australia.

The Trust was established with the purpose of carrying on a business to purchase a cover pool of assets by equitable assignment and to guarantee the covered bonds issued by the parent entity, Suncorp-Metway Limited (**SML**). The ultimate parent entity of the Trust is Suncorp Group Limited.

The Trust was established by the Trust Deed between the Issuer, Seller and Servicer (**SML**), the Manager and Administrative Agent (**SME Management Pty Limited**) and the Covered Bond Guarantor (**Perpetual Corporate Trust Limited**, in its capacity as Trustee of the Trust) dated 10 May 2012.

In accordance with the Trust Deed, the Trust was constituted on 25 May 2012 following the receipt of \$20, being the initial assets of the Trust.

The Trust entered into an Intercompany Loan Agreement with **SML** to fund the purchase of the cover pool by equitable assignment. The intercompany loan consists of a guarantee loan and demand loan, which represent the debts of the Trust.

The financial report was authorised for issue by the directors of **SME Management Pty Limited** (the **Directors**) on 5 August 2019. The registered office of the Manager is at Level 28, 266 George Street, Brisbane QLD 4000.

2. Basis of preparation

The Trust is a for-profit entity and its financial statements have been prepared on the historical cost basis unless the application of fair value measurement is required by relevant accounting standards.

In the opinion of the Directors, the Trust is not a reporting entity. The financial statements of the Trust have been prepared as special purpose financial statements for the sole purpose of fulfilling the requirements of the Trust Deed dated 10 May 2012.

The financial report is presented in Australian dollars which is the Trust's functional and presentation currency.

Significant accounting policies applied in the preparation of the financial statements are set out in note 9.

New Accounting Standards

AASB 9 Financial Instruments (AASB 9) has been applied from 1 July 2018 and the option not to restate prior period financial statements was elected.

After completing the assessment of changes in classification and measurement the impact on financial assets and liabilities is immaterial for the Trusts.

AASB 15 Revenue from Contracts with Customers (AASB 15) has been applied from 1 July 2018 and provides a single comprehensive model for revenue recognition based on the satisfaction of performance obligations and additional disclosures about revenue. It replaces **AASB 118 Revenue**, **AASB 111 Construction Contracts**, and related interpretations. Its adoption had no material impact on the Trusts' financial statement.

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

2.1. Use of estimates and judgments

The preparation of 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.

Significant estimates, judgments and assumptions are discussed in the following notes:

- impairment of secured loan (note 3)
- *recognition of secured loan as a consequence of the sale of cover pool assets by SML not qualified for derecognition (note 9.6)*

3. Secured loan

	2019	2018
	\$	\$
<i>Loans, advances and other receivables</i>		
Secured Loan	2,969,796,759	1,534,030,383
Provision for impairment	(1,221,786)	-
Total secured loan	2,968,574,973	1,534,030,383

The Trust recognised a receivable due from SML, representing a secured loan (also refer note 9.6) rather than the underlying securitised mortgages. The secured loan is secured by an equitable interest in the mortgage loans held by SML.

The collateral against the cover pool held by SML is in the form of mortgage interests over Australian residential property. Estimates of fair value are based on the value of collateral assessed at the time of origination, and generally are not updated except when a loan is individually assessed as impaired.

The provision for impairment of the secured loan reflects the potential impairment of the underlying cover pool assets managed by SML.

3.1 Impairment of mortgage loans

AASB 9 requires the re-measurement of impairment provision for loans, advances and other receivable due to adoption of expected credit loss (ECL) model. The impact of re-measurement as at 1 July 2018 is not material. The value of re-measurement and movement through the ECL during the financial year has been fully recognised in the statement of comprehensive income as impairment loss for the year ended 30 June 2019.

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

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

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

- Stage 1 are performing and/or newly originated assets. Provisions for secured loans in stage 1 are established to provide for ECL for a period of 12 months;
- Stage 2 assets have experienced a significant increase in credit risk (SICR) since origination. Provisions for secured loans in stage 2 are established to provide for ECL for the remaining term of the asset (lifetime ECL); and

- Stage 3 are impaired assets. Provisions for secured loans in stage 3 are established to provide for the lifetime ECL. A specific provision is calculated based on estimated future cash flows discounted to their present value.

As at 30 June 2019, given the nature of the secured loan being a receivable a fully collateralised receivable due from SML, the entire ECL for the Trust is classified as stage 1.

4. Payables

	2019	2018
	\$	\$
Servicer's fee	546,098	283,230
Cash manager fee	136,524	70,808
Administrative agent fee	54,610	28,323
Unapplied funds	963,926	856,461
Covered bond guarantee fee	8,860	7,414
Total payables	1,710,018	1,246,236

5. Interest-bearing liabilities

	2019	2018
	\$	\$
Demand loan	11,149,520	52,481,999
Guarantee loan	3,008,850,480	2,157,518,001
Total Interest-bearing liabilities	3,020,000,000	2,210,000,000

6. Units on issue

	2019		2018	
	No. of units	\$	No. of units	\$
Residual income unit	1	10	1	10
Residual capital unit	1	10	1	10
Total units on issue	2	20	2	20

The Residual Income Unitholder has no right to receive distributions in respect of the Trust except:

- any amounts payable to the Residual Income Unitholder under clause 18.7 of the Trust Deed, the Priorities of Payments and the Security Trust Deed and when the Trust ends, a distribution of all of the remaining trust assets, subject to the rights of the Residual Capital Unitholder; and
- when the Trust ends subject to the amount of available funds, an amount equal to the subscription price of the Residual Capital Unit.

7. Reconciliation of cash flows from operating activities

	2019	2018
	\$	\$
Net profit for the financial year	-	-
Non-cash items		
Impairment loss on financial assets	1,221,786	-
Change in assets and liabilities		
(Increase) decrease in secured loan	(1,435,766,376)	1,391,679,962
(Increase) decrease in trade and other receivables	(24,348,103)	52,300,723
Increase (decrease) in all payables	5,248,405	(11,304,773)
Net cash (used in) from operating activities	(1,453,644,288)	1,432,675,912

8. Auditor's remuneration

	2019	2018
	\$	\$
KPMG Australia		
Audit of the financial report	30,000	30,000
Total auditor's remuneration	30,000	30,000

Fees for services rendered by the Trust's auditor KPMG Australia in relation to the statutory audit are borne by the income and capital unitholder, SML.

9. Significant accounting policies

The special purpose financial report has been prepared in accordance with the requirements of the Trust Deed, and the recognition and measurement aspects of all applicable Australian Accounting Standards (AASB) as issued by the Australian Accounting Standards Board.

The financial statements have been prepared in accordance with the disclosure requirements of AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards*, AASB 1054 *Australian Additional Disclosures* and AASB 1057 *Application of Australian Accounting Standards*. They do not comply with all the disclosure requirements of Australian Accounting Standards.

The financial statements do not comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board.

The accounting policies set out below have been applied consistently to all financial years presented in these financial statements.

9.1. Revenue and expense recognition

Interest revenue and expense are recognised in profit or loss for all interest-bearing instruments measured at amortised cost using the effective interest method.

The effective interest method uses the effective interest rate to allocate interest income and expense over the relevant accounting period for the financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

This calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums.

Interest income on the secured loan (refer note 9.6) comprises interest income from the cover pool, any fee income earned from the cover pool, and the net interest income/expense not separately recognised under the interest rate swap (refer note 9.7).

9.2. Income tax

The Trust is only liable to income tax to the extent that accumulated income is assessable. Under current legislation the Trust is not subject to income tax as the taxable income, including assessable realised capital gains are distributed in full to the unitholder.

9.3. Goods and services tax (GST)

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

Receivables and payables are stated with the amount of GST included.

9.4. Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on deposit, and money at call. They are measured at face value or the gross value of the outstanding balance.

9.5. Non-derivative financial assets

The Trust classifies its non-derivative financial assets as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised when it becomes a party to the contractual provisions of the instrument at fair value plus any directly attributable transaction costs. Loans and receivables are subsequently measured at each reporting date at amortised cost using the effective interest method.

The secured loan is an example of a non-derivative financial asset recognised by the Trust. Refer to note 9.6 for further details on its accounting treatment.

9.6. Secured loan

Secured loan represents the Trust's interest in the cover pool assets purchased from SML by equitable assignment.

The sale of the cover pool assets from SML to the Trust does not qualify for derecognition in accordance with AASB 9 because the sale is deemed to have failed to transfer substantially all the risks and rewards of ownership. Consequently, SML continues to recognise the cover pool assets and recognise a corresponding financial liability to the Trust on its statement of financial position. In turn, the Trust recognises a financial asset due from SML, being the secured loan, and a corresponding financial liability to SML under the Intercompany Loan Agreement.

The transfer of substantially all the risks and rewards of ownership is evaluated by comparing the entity's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. An entity has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability of the future net cash flows from the financial asset does not change significantly as a result of the transfer.

Under the sale agreement, the Trust assumes any variability of principal cash flows from the cover pool, while the variability of the revenue cash flows, as a result of the interest rate swap agreement (refer note 9.7) and the ownership of the residual income unit (refer note 6), remains with SML.

As a result, after considering all reasonably possible variability in net cash flows, with greater weight being given to those outcomes that are more likely to occur, SML is deemed to have failed to transfer substantially all of the risk and rewards.

9.7. Derivative financial instruments

The Trust has entered into an interest rate swap with SML. The purpose of the swap is to align the basis of revenue from the cover pool assets purchased under equitable assignment from SML (refer note 9.6) to the interest expense under the debt. The interest rate swap converts the revenue receipts from the variable and fixed rate mortgages to a floating rate basis.

As a consequence of SML's sale of cover pool assets to the Trust not qualifying for derecognition (refer note 9.6), AASB 9 also denies the Trust from separately recognising derivatives that cause the failure for derecognition. Therefore, the Trust has not separately recognised the interest rate swap in the statement of financial position and no gains or losses have been recognised in profit or loss.

9.8. Impairment of financial assets

Financial assets, other than those measured at fair value through profit or loss, are assessed each reporting date to determine whether there is any objective evidence of impairment. If impairment has occurred, the carrying amount of the asset is written down to its estimated recoverable amount.

9.9. Non-derivative financial liabilities

Financial liabilities at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the financial liability. Subsequent measurement is at amortised cost using the effective interest method.

9.10. Units issued

The units issued by the Trust satisfy the definition of a liability under AASB 132 *Financial Instruments: Presentation* and are accounted for as a financial liability at amortised cost.

10. Subsequent events

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

TRUSTEE'S REPORT

For the financial year ended 30 June 2019

The financial statements for the financial year ended 30 June 2019 have been prepared by the Trust Manager, SME Management Pty Limited, as required by the Trust Deed.

The auditors of the Trust, KPMG, who have been appointed by us in accordance with the Trust Deed, have conducted an audit of these financial statements.

A review of the operations of the Trust and the results of these operations for the financial year ended 30 June 2019 is contained in the Manager's Declaration.

Based on our ongoing program of monitoring the Trust, we believe that:

- (a) the Trust has been conducted in accordance with the Trust Deed; and
- (b) the financial report has been appropriately prepared and contains all relevant and required disclosures.

In making this statement, the Trustee has relied upon information, representations and warranties provided by the Manager.

We are not aware of any material matters or significant changes in the state of affairs of the Trust occurring up to the date of this report that require disclosure in the financial statements and the notes thereto that have not already been disclosed.

Signed for and on behalf of
Perpetual Corporate Trust Limited



Nathan Gale
Authorised Officer

Perpetual Corporate Trust Limited

Sydney

12 August 2019

MANAGER'S DECLARATION

For the financial year ended 30 June 2019

Review of operations

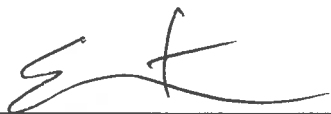
The Trust's net profit from operating activities before distribution expense for the financial year ended 30 June 2019 is \$16,707,149 (2018: \$7,587,260).

Declaration

In the opinion of the Manager of the Suncorp Covered Bond Trust:

- (a) the financial statements and notes, set out on pages 2 to 11, present fairly, in all material respects, the financial position of the Trust as of 30 June 2019 and its financial performance and its cash flows for the period then ended in accordance with the accounting policies described in note 9 to the financial statements;
- (b) the Trust has operated during the financial year ended 30 June 2019 in accordance with the provisions of the Trust Deed dated 10 May 2012; and
- (c) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors of the Manager, SME Management Pty Limited



ERIN STRANG

Director

SME Management Pty Limited

Brisbane

12 August 2019



Independent Auditor's Report

To the Unitholders of the Suncorp Covered Bond Trust

Opinion

We have audited the **Financial Statements** of Suncorp Covered Bond Trust (the Trust).

In our opinion, the accompanying Financial Statements presents fairly, in all material respects, the financial position of Suncorp Covered Bond Trust as of 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with the basis of preparation described in notes 2 and 9 to the Financial Statements.

The **Financial Statements** comprise:

- Statement of financial position as at 30 June 2019;
- Statement of comprehensive income and Statement of cash flows for the year then ended; and
- Notes including a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audits of the Financial Statements* section of our report.

We are independent of the Trust in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the *Financial Statements* in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter – basis of preparation and restriction on use and distribution

We draw attention to notes 2 and 9 to the Financial Statements, which describe the basis of preparation.

The Financial Statements have been prepared to assist the Directors of SME Management Pty Limited (the Manager and Administrative Agent) in meeting the requirements of the Trust Deed dated 10 May 2012 and in meeting the needs of the Unitholders.

As a result, the Financial Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Our report is intended solely for Perpetual Trustee Company Limited (the Trustee of the Trust), the Directors of SME Management Pty Limited and Unitholders and should not be distributed to or used by parties other than Perpetual Trustee Company Limited, SME Management Pty Limited and Unitholders. We disclaim any assumption of responsibility for any reliance on this report or on the Financial Statements to which it relates, to any person other than the Perpetual Trustee Company

Limited as Trustee of the Trust, SME Management Pty Limited and Unitholders or for any other purpose than that for which it was prepared.

Other Information

Other Information is financial and non-financial information in Suncorp Covered Bond Trust's Financial Report which is provided in addition to the Financial Statements and the Auditor's Report. This includes the Trustee's Report and the Manager's declaration. The Trustee, Manager and Administrative Agent are responsible for the Other Information.

Our opinion on the Financial Statements does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Manager for the Financial Statements

The Manager is responsible for:

- the preparation and fair presentation of the Financial Statements and have determined that the basis of preparation described in notes 2 and 9 to the Financial Statements is appropriate to meet the requirements of the Trust Deed dated 28 January 1999 and is appropriate to meet the needs of the Unitholders;
- implementing necessary internal control to enable the preparation and fair presentation of a Financial Statements that is free from material misstatement whether due to fraud or error; and
- assessing the Trust's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objective is:

- to obtain reasonable assurance about whether the Financial Statements as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinions.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A further description of our responsibilities for the audits of the Financial Statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG



Ben Flaherty
Partner

Brisbane
12 August 2019