Suncorp-Metway Limited
and subsidiaries
ABN 66 010 831 722

Consolidated interim financial report
for the half-year ended 31 December 2012

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One Company Many Brands
SUNCORP GROUP

Directors' report

The directors present their report together with the consolidated interim financial report of Suncorp-Metway Limited (the Company) and its subsidiaries for the half-year ended 31 December 2012 and the review report thereon.

Directors

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

Non-executive

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

Executive

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

Review of operations

Overview of the Group

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

The Group recorded a consolidated net profit after tax attributable to owners of the Company of $4 million for the half-year ended 31 December 2012, compared to $100 million for the corresponding prior period, representing a 96% decrease in profit.

Financial position and capital structure

The Group has net assets of $3,211 million (June 2012: $2,740 million). The increase in net assets of $471 million comprises the profit for the half-year and the issue of perpetual, subordinated notes for $450 million.

At 31 December 2012, the Group's capital adequacy ratio is 12.52% and core equity tier 1 ratio is 7.53%. The Group remains well capitalised and in excess of the minimum regulatory requirement.

Impact of legislation and other external requirements

There continues to be significant legislative and regulatory reform which impacts the Group's operations.

APRA has finalised the prudential framework for implementing Basel III capital reforms in Australia which will be progressively applied from 1 January 2013 to Australian banks. The Basel III reforms incorporate higher minimum capital requirements and include additional capital buffers.

The Federal Senate Economics References Committee released its report on its inquiry into the post global financial crisis banking sector which contains several recommendations. These recommendations include that an independent inquiry into Australia's banking and financial systems should be established and a voluntary code of conduct for small business should be developed by the Australian Bankers' Association and implemented. The Federal Government is yet to release its response to the recommendations.

These prudential and regulatory changes and other proposals, and Government Inquiries will or could impact the Group's banking operations.

Review of operations (continued)

Review of principal businesses

The profit after tax of the Group was $4 million for the half-year ended 31 December 2012 (2011: $100 million), which consisted of a $144 million profit from the Core Bank (2011: $156 million), a $140 million loss from the Non-core Bank (2011: $54 million). Non-banking segment expenses of $2 million were included in the prior period's profit after tax.

Core Bank

The Core Bank has maintained positive momentum, reporting a net profit after tax of $144 million.

Growth in housing loan receivables continued with the portfolio increasing 5.9%. The Bank has an established franchise in both direct and indirect channels and is focused on improving customer experience. Business lending increased 4.7%, with particular emphasis on the Agribusiness market. This includes leveraging investments made in prior periods in diversified geographic markets.

The Bank's focus remains on low-risk segments, providing simple products to Australian customers. The Bank's loan to value ratio for new business remains in line with historic trends and reflects the Bank's conservative appetite for owner occupiers seeking mortgages from a genuine alternative to the Major Banks. The average home loan size in the portfolio remains below $300,000.

The Bank's funding position is underpinned by access to a wide range of wholesale and retail funding markets. This was further demonstrated with the issuance of a second covered bond for A$600 million and a $1 billion residential mortgage backed securitisation (RMBS) issue. Less than 5% of the Core Bank's lending portfolio is funded through short-term wholesale markets.

The Bank has retained its conservative retail funding position with a deposit to loan ratio of 66%. During the half the Bank achieved 10.5% growth in its at-call deposit portfolio and 1.1% growth in its core term deposit portfolio. As a result of the strong core deposit growth, and access to stable long-term wholesale funding, deposits which are less favourable under the proposed Basel III liquidity rules have been selectively run off.

The net interest margin has reduced to 1.83% but remains near the top of the Bank's target range of 1.75% to 1.85%. The market wide impetus to increase retail deposit funding continues to restrain margins.

Net interest income of $470 million was up 6.6%. Solid asset growth combined with pricing discipline has helped to achieve this result.

Operating expenses are broadly in line half on half, although they have increased on the corresponding prior period. This reflects the Core Bank's investment in system replacement activity, the Basel II accreditation program and Group Simplification initiatives.

Bad debt charges were $32 million; credit impairment losses to risk-weighted assets holding steady at 27 basis points. There are no systemic issues evident in the Core portfolio.

Non-core Bank

In 2009, Suncorp undertook a strategic review of its banking operations and announced its strategy to create a Non-core division. The former Corporate Banking, Property Investment and Development Finance divisions were placed into an $18 billion portfolio and the Group began an orderly run-off strategy to maximise shareholder value. The Bank took a risk averse approach to funding the Non-core portfolio, reducing refinance risks by match funding liabilities to maturity. The portfolio was also backed by significant capital reserves to take account of its run-off nature and the higher proportion of impaired loans.

The portfolio is now in advanced stages of run-off with outstanding balances of $3.4 billion at December 2012. It has reduced by $1.1 billion or 24% over the half. This means the portfolio is now only approximately 20% of its original size. Exposures with balances in excess of $50 million have reduced from 121 at inception to 26 at December 2012.

The Non-core Bank's impaired portfolio was $1.6 billion at December 2012, down $205 million during the half. While the impaired portfolio trended close to $2 billion until recent periods, the composition of the portfolio has changed significantly over time. Since June 2009, over $2.6 billion of impaired loans have been sold, repaid or written off. Over this period ongoing economic uncertainty has also resulted in additional exposures becoming impaired. The impaired portfolio is closely managed, with all accounts having work-out strategies in place. The Bank will consider loan disposals where a transaction is deemed to maximise shareholder value. During the half, one large impaired exposure was sold.

Directors' report (continued)

Review of operations (continued)

Review of principal businesses (continued)

As a run-off portfolio, the Non-core Bank's performance is not directly comparable to the Core portfolio or portfolios of other institutions that remain open to new business.

Operating expenses in the Non-core Bank are trending down although will continue to lag the portfolio run-off.

The Non-core Bank was established with the funding requirements of the portfolio matched to the portfolio's expected run-off profile, along with significant capital and liquidity buffers. These buffers have allowed management to assess the full range of run down options available for each exposure and maximise the release of capital from the portfolio. Since June 2009, the Non-core Bank has net returned $421 million of capital.

Events subsequent to reporting date

On 14 January 2013, the Group repurchased Government guaranteed debt with a total carrying value of $250 million for $253 million resulting in a loss on repurchase of $3 million.

On 15 February 2013, the Group repurchased Government guaranteed debt with a total carrying value of $892 million for $897 million resulting in a loss on repurchase of $5 million.

Except as stated above, there has not arisen in the interval between 31 December 2012 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

Dividends

There was no final dividend paid during the period.

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

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the half-year ended 31 December 2012.

Rounding of amounts

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

Signed in accordance with a resolution of the directors.

Z. E. Switkowski

Dr Zygmunt E Switkowski
Chairman

Patrick J R Snowball
Managing Director and Group CEO

20 February 2013

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

To: the directors of Suncorp-Metway Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2012 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

Robert S. Jones

Robert S Jones
Partner

Brisbane

20 February 2013

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated interim statement of comprehensive income

for the half-year ended 31 December 2012

CONSOLIDATED	Note	Dec 2012	Dec 2011
		$m	$m
Interest income	7	1,787	2,088
Interest expense	7	(1,303)	(1,619)
Net interest income		484	469
Other operating income	7	26	91
Total net operating income		510	560
Operating expenses		(303)	(294)
Impairment losses on loans and advances	11.2	(194)	(131)
Profit before income tax		13	135
Income tax expense	8	(9)	(35)
Profit for the period		4	100
Other comprehensive income			
Net change in fair value of cash flow hedges	19	37	60
Net change in fair value of available-for-sale financial assets	19	(5)	(66)
Income tax		(15)	2
Total other comprehensive income		17	(4)
Total comprehensive income for the period		21	96
Profit for the period attributable to owners of the Company		4	100
Total comprehensive income for the period attributable to owners of the Company		21	96

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 2012

CONSOLIDATED	Note	Dec 2012	Jun 2012	Dec 2011
		$m	$m	$m
Assets				
Cash and cash equivalents		341	549	297
Receivables due from other banks		124	154	159
Trading securities		4,077	4,787	3,641
Derivatives		427	424	330
Investment securities	**9**	5,114	6,308	6,660
Loans, advances and other receivables	**10**	49,943	49,411	47,943
Other assets		319	350	279
Deferred tax assets		185	241	178
Goodwill and intangible assets		27	26	31
Total assets		60,557	62,250	59,518
Liabilities				
Payables due to other banks		32	41	26
Deposits and short-term borrowings		41,842	41,544	39,268
Derivatives		1,287	2,369	2,086
Payables and other liabilities		578	691	691
Securitisation liabilities	**13**	4,326	3,839	4,356
Debt issues	**14**	8,250	9,598	8,706
Total liabilities excluding loan capital		56,315	58,082	55,133
Loan capital				
Subordinated notes	**15**	267	666	670
Preference shares	**16**	764	762	760
Total loan capital		1,031	1,428	1,430
Total liabilities		57,346	59,510	56,563
Net assets		3,211	2,740	2,955
Equity				
Share capital	**17**	2,189	2,189	2,189
Capital notes	**18**	450	-	-
Reserves	**19**	(336)	(339)	(228)
Retained profits		908	890	994
Total equity		3,211	2,740	2,955

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 2012

CONSOLIDATED	Note	Share capital $m	Capital notes $m	Reserves $m	Retained profits $m	Total equity $m
Balance as at 1 July 2012		**2,189**	**-**	**(339)**	**890**	**2,740**
Profit after tax for the period		-	-	-	4	4
Total other comprehensive income		-	-	17	-	17
Total comprehensive income		-	-	17	4	21
Transactions with owners, recorded directly in equity						
Notes issued to ultimate parent entity	**18**	-	450	-	-	450
Transfers		-	-	(14)	14	-
Balance as at 31 December 2012		**2,189**	**450**	**(336)**	**908**	**3,211**
Balance as at 1 July 2011		**1,789**	**-**	**(243)**	**1,359**	**2,905**
Profit after tax for the period		-	-	-	100	100
Total other comprehensive income		-	-	(4)	-	(4)
Total comprehensive income		-	-	(4)	100	96
Transactions with owners, recorded directly in equity						
Issue of ordinary shares	**17**	400	-	-	-	400
Dividends paid	**5**	-	-	-	(446)	(446)
Transfers		-	-	19	(19)	-
Balance as at 31 December 2011		**2,189**	**-**	**(228)**	**994**	**2,955**

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 2012

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Cash flows from operating activities		
Interest received	1,904	2,059
Interest paid	(1,318)	(1,628)
Other operating income received	57	119
Operating expenses paid	(464)	(484)
Income tax paid	(51)	(40)
Net decrease (increase) in operating assets		
Trading securities	736	1,330
Loans, advances and other receivables	(731)	989
Net increase in operating liabilities		
Deposits and short-term borrowings	313	26
Net cash from operating activities	446	2,371
Cash flows from investing activities		
Net proceeds (payments) from plant, equipment and intangibles	-	40
Net proceeds (payments) from investment securities	1,161	(922)
Net cash from (used in) investing activities	1,161	(882)
Cash flows from financing activities		
Net decrease in borrowings	(1,879)	(1,308)
Payment on call of subordinated notes	(407)	(173)
Dividends paid on ordinary shares	-	(46)
Proceeds from capital notes issued	450	-
Payments for preference share redemption	-	(72)
Net cash used in financing activities	(1,836)	(1,599)
Net decrease in cash and cash equivalents	(229)	(110)
Cash and cash equivalents at the beginning of the period	662	540
Cash and cash equivalents at the end of the period	433	430
Cash and cash equivalents at the end of the period comprises:		
Cash and cash equivalents	341	297
Receivables due from other banks	124	159
Payables due to other banks	(32)	(26)
	433	430

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

Notes to the consolidated interim financial statements

1. Reporting entity

Suncorp-Metway Limited (the **Company**) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the half-year ended 31 December 2012 comprises the Company and its subsidiaries (the **Group**).

The Group is a for-profit entity and its consolidated annual financial report for the financial year ended 30 June 2012 is available upon request from the Company's registered office at Level 18, 36 Wickham Terrace, Brisbane, QLD 4000 or at www.suncorpgroup.com.au.

2. Basis of preparation

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

The consolidated interim financial report does not include all of the information required for a full consolidated annual financial report, and should be read in conjunction with the consolidated financial report of the Group for the financial year ended 30 June 2012 and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

The consolidated interim financial report was approved by the Board of Directors on 20 February 2013.

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

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

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

Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated annual financial report for the year ended 30 June 2012.

Since 1 July 2012, the Group has adopted AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income.* Consequently, the format of the consolidated interim statement of comprehensive income has been revised to present items of other comprehensive income that may be reclassified to profit or loss in the future separately from items that would never be reclassified. This is a change in presentation only and has no impact on earnings per share.

4. Use of estimates and judgements

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated annual financial report as at and for the year ended 30 June 2012.

5. Dividends

CONSOLIDATED	Dec 2012		Dec 2011	
	¢ per share	$m	¢ per share	$m
Dividends ordinary shares				
2012 final dividend (Dec 11: 2011 final dividend)[1]	-	-	25	46
2012 special dividend[2]	-	-	215	400
Total dividends recognised in equity		-		446
Dividends declared since balance date and not recognised in the consolidated interim statement of financial position				
Dividend on ordinary shares				
2013 interim dividend (Dec 11: 2012 interim dividend)	-	-	24	55
		-		55

Notes

1. The 2011 final dividend paid and declared was unfranked.
2. Special dividend paid to the parent entity on 30 September 2011 with concurrent equal investment in new ordinary shares of the Company. Further information can be found in note 17.1.

6. Segment reporting

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

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

Segment results presented below are measured on a consistent basis to how they are reported to the CODM, which are consistent with the Group's accounting policy (refer note 3). An exception arises where non-Banking related expenses incurred by the Group are excluded from Banking segment results.

The basis of segmentation and basis of measurement of segment results are the same as those applied by the Group in its consolidated annual financial report for the year ended 30 June 2012. Comparative segment information has been presented on this basis.

6.1. Segment results

	Banking
	$m
Half-year ended 31 December 2012	
Revenue from external customers	1,865
Inter-segment revenue	-
Total segment revenue	1,865
Segment profit (loss) before income tax	13
Segment income tax expense	(9)
Segment profit (loss) after income tax	4
Half-year ended 31 December 2011	
Revenue from external customers	2,225
Inter-segment revenue	-
Total segment revenue	2,225
Segment profit (loss) before income tax	138
Segment income tax expense	(36)
Segment profit (loss) after income tax	102

6.2. Reconciliation of segment profit after tax

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Segment profit after income tax	4	102
Non-banking segment expenses	-	(2)
Consolidated profit after income tax	4	100

7. Income

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Interest income		
Cash and cash equivalents	6	10
Trading securities	77	105
Investment securities	132	186
Loans and advances	1,572	1,787
	1,787	2,088
Interest expense		
Deposits and short-term borrowings	(871)	(1,023)
Derivatives	(101)	(211)
Securitisation liabilities	(101)	(105)
Debt issues	(194)	(225)
Subordinated notes	(16)	(31)
Preference shares	(20)	(24)
	(1,303)	(1,619)
Net interest income	484	469
Net fee and commission income		
Fee and commission income	91	94
Fee and commission expense	(52)	(46)
	39	48
Net profits (losses) on derivative and other financial instruments:		
realised	17	5
unrealised	(9)	3
Other income[1]	(21)	35
Other operating income	26	91
Total net operating income	510	560

Note

1. Other income includes $21 million in losses on disposal of Non-core financial instruments for the current interim period (Dec 2011: Includes a gain on disposal of property, plant and equipment for $34 million).

8. Income tax expense

The Group's consolidated effective tax rate for the half-year ended 31 December 2012 was 71.2% (for the year ended 30 June 2012: 35.9%; for the half-year ended 31 December 2011: 26.6%).

As at 31 December 2012, the Company is a wholly-owned entity in a tax consolidated group, with Suncorp Group Limited as the head entity.

Income tax expense adjustments have primarily arisen from non-deductible interest paid in respect of the convertible preference shares of $5.2 million (December 2011: $6.3 million), reset preference shares of $0.2 million (December 2011: $0.4 million).

9. Investment securities

CONSOLIDATED	Dec 2012	Jun 2012
	$m	$m
Available-for-sale financial assets		
Interest-bearing securities	1,291	2,522
Unit trusts	-	14
	1,291	2,536
Held-to-maturity investments		
Interest-bearing securities	3,823	3,772
	3,823	3,772
Total investment securities	5,114	6,308

10. Loans, advances and other receivables

CONSOLIDATED	Note	Dec 2012	Jun 2012
		$m	$m
Financial assets at amortised cost			
Housing loans[1]		35,963	33,955
Consumer loans		464	482
Business loans		12,758	13,392
Other lending[2]		965	1,918
Loans to related parties		266	201
		50,416	49,948
Provision for impairment	**11.1**	(473)	(537)
Total loans, advances and other receivables		49,943	49,411

Notes

1. Includes securitised housing loan balances of $4,626 million (June 2012: $4,178 million) which has an equivalent associated securitised liability.
2. Includes $907 million (June 2012: $1,890 million) pledged as collateral for derivative liabilities.

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

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

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Collective provision		
Balance at the beginning of the period	145	177
Charge (credit) against impairment losses	(4)	(11)
Balance at the end of the period	141	166
Specific provision		
Balance at the beginning of the period	392	387
Charge (credit) against impairment losses	196	128
Impaired assets written off	(191)	(50)
Unwind of discount	(65)	(78)
Balance at the end of the period	332	387
Total provisions	473	553

11.2. Impairment expense on loans, advances and other receivables

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Decrease in collective provision for impairment	(4)	(11)
Increase in specific provision for impairment	196	128
Bad debts written off	10	17
Bad debts recovered	(8)	(3)
Total impairment expense	194	131

12. Short-term offshore debt securities

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Balance at the beginning of the period	3,715	3,840
Proceeds from issues	3,458	9,419
Repayments	(3,668)	(11,522)
Foreign exchange translation and fair value movements	(53)	130
Balance at the end of the period	3,452	1,867

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

13. Securitisation liabilities

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Balance at the beginning of the period	3,839	3,634
Proceeds from issues	1,000	1,250
Transaction costs (incurred) amortised	(2)	(2)
Net proceeds	998	1,248
Repayments	(538)	(518)
Foreign exchange translation movements	27	(8)
Balance at the end of the period	4,326	4,356

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

14. Debt issues

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Balance at the beginning of the period	9,598	10,151
Proceeds from issues	987	-
Transaction costs amortised (incurred)	(1)	6
Net proceeds	986	6
Repayments	(2,281)	(1,629)
Foreign exchange translation and fair value movements	(53)	178
Balance at the end of the period	8,250	8,706

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

15. Subordinated notes

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Balance at the beginning of the period	666	846
Repayment on call of subordinated notes	(407)	(173)
Foreign exchange translation and fair value movements	8	(3)
Balance at the end of the period	267	670

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

16. Preference shares

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Balance at the beginning of the period	762	830
Repayments on redemption	-	(72)
Transaction costs amortised	2	2
Balance at the end of the period	764	760

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

The RPS are perpetual, paying fixed non-cumulative dividends with certain terms periodically reset. They last reset on 14 September 2011 and the Group received exchange requests for 718,519 RPS from RPS holders. Exchange consideration of $72 million was settled in cash and the exchanged RPS were cancelled on this date. The number of RPS on issue as at 31 December 2012, 30 June 2012 and 31 December 2011 was 304,063. The next reset date is 14 September 2016.

The CPS are fully paid preference shares which will mandatorily convert into a variable number of Suncorp Group Limited's ordinary shares on 14 June 2013 (subject to certain requirements being met). The number of CPS on issue as at 31 December 2012, 30 June 2012 and 31 December 2011 was 7,350,000.

16.1. Preference share dividends recognised as interest expense

CONSOLIDATED	Dec 2012		Dec 2011	
	¢ per share	$m	¢ per share	$m
RPS				
Period from March to September	212	1	255	3
CPS				
September quarter	119	9	145	11
December quarter	119	9	141	10
		18		21

17. Share capital

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Issued capital		
Balance at the beginning of the period	2,189	1,789
Shares issued to parent entity	-	400
Balance at the end of the period	2,189	2,189

17.1. Number of ordinary shares on issue

On 30 September 2011, 40,000,000 new ordinary shares were issued at an issue price $10 per share to the parent entity as a result of its reinvestment of the special dividend of $400 million paid by the Company.

The number of ordinary shares on issue as at 31 December 2012, 30 June 2012 and 31 December 2011 was 225,634,572.

18. Capital notes

CONSOLIDATED	Dec 2012	Dec 2011
	$m	$m
Balance at the beginning of the period	-	-
Issued to ultimate parent entity	450	-
Balance at the end of the period	450	-

On 17 December 2012, the Company issued perpetual, subordinated notes to its ultimate parent entity, Suncorp Group Limited, for $450 million. The notes are unsecured and pay periodic non-cumulative dividends.

19. Reserves

CONSOLIDATED	Equity reserve for credit losses $m	Hedging reserve $m	Assets available-for-sale reserve $m	Common control reserve $m	Total $m
Balance as at 1 July 2012	147	(110)	(4)	(372)	(339)
Transfer to retained profits	(14)	-	-	-	(14)
Amount recognised in equity	-	22	7	-	29
Amount transferred from equity to profit or loss	-	15	(12)	-	3
Income tax	-	(16)	1	-	(15)
Balance as at 31 December 2012	133	(89)	(8)	(372)	(336)
Balance as at 1 July 2011	157	(66)	38	(372)	(243)
Transfer from retained profits	19	-	-	-	19
Amount recognised in equity	-	56	(44)	-	12
Amount transferred from equity to profit or loss	-	4	(22)	-	(18)
Income tax	-	(18)	20	-	2
Balance as at 31 December 2011	176	(24)	(8)	(372)	(228)

20. Changes in the composition of the Group

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

During the prior interim reporting period, the Group disposed of its 50% interest in the Polaris Data Centre joint venture asset. The investment in the joint venture asset was classified as property, plant and equipment, with a carrying amount of $69 million. A gain on sale of $34 million was recognised in other income.

21. Related parties

Arrangements for related parties continue to be in place as disclosed in the 30 June 2012 consolidated annual financial report.

22. Contingent assets and liabilities

There have been no material changes in contingent assets or contingent liabilities since 30 June 2012.

23. Subsequent events

On 14 January 2013, the Group repurchased Government guaranteed debt with a total carrying value of $250 million for $253 million resulting in a loss on repurchase of $3 million.

On 15 February 2013, the Group repurchased Government guaranteed debt with a total carrying value of $892 million for $897 million resulting in a loss on repurchase of $5 million.

Except as stated above, there has not arisen in the interval between 31 December 2012 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

Directors' declaration

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

1. the financial statements and notes set out on pages 5 to 16, 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 2012 and of its performance for the half-year ended on that date; and
   b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

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

Signed in accordance with a resolution of the directors:

Dr Zygmunt E Switkowski
Chairman

Patrick J R Snowball
Managing Director and Group CEO

20 February 2013

KPMG

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

Report on the financial report

We have reviewed the accompanying interim financial report of Suncorp-Metway Limited (the Company), which comprises the consolidated interim statement of financial position as at 31 December 2012, 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 23 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2012 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 Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

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

KPMG

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Robert S Jones

Robert S Jones
Partner

Brisbane

20 February 2013