# Suncorp-Metway Limited and subsidiaries
# ABN 66 010 831 722

## Consolidated financial report

## For the financial year ended 30 June 2021

Contents | Page

# Directors' Report

The directors present their report together with the financial report of the consolidated entity (or **Group**), being Suncorp-Metway Limited (the **Company**) and its subsidiaries for the financial year ended 30 June 2021 and the auditor's report thereon.

Suncorp Group Limited (**SGL**), the Company's ultimate parent entity, is the listed holding company of the Suncorp Group of companies. SGL and its subsidiaries are referred to as the **Suncorp Group** or **Suncorp**.

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 financial year are:

### Non-executive

| | |
|---|---|
| Christine McLoughlin AM (Chairman) | Director since 2015, Chairman since 2018 |
| Sylvia Falzon | Director since 2018 |
| Ian Hammond | Director since 2018 |
| Sally Herman | Director since 2015 |
| Elmer Funke Kupper | Director since 2020 |
| Simon Machell | Director since 2017 |
| Douglas McTaggart | Director since 2012 |
| Lindsay Tanner | Director since 2018 |
| Audette Exel AO | Retired 30 September 2020 |

### Executive

| | |
|---|---|
| Steve Johnston (Group Chief Executive Officer and Managing Director) | Executive Director since 2019 |

## 2. Principal activities

The Company is an Authorised Deposit-taking Institution (**ADI**). The principal activities of the Group during the course of the financial year were the provision of banking and related services to retail, commercial, small and medium enterprises and agribusiness customers in Australia.

The Group conducts the Banking operations of the Suncorp Group. There were no significant changes in the nature of the Group's activities during the financial year ended 30 June 2021.

## 3. Dividends

During the financial year, the Company paid dividends on ordinary shares totalling $171 million (2020: $322 million) and on capital notes totalling $16 million (2020: $20 million).

Since the end of the financial year, the directors have determined a dividend on ordinary shares in respect of the 2021 financial year of an amount up to $216 million, payable on or around 31 August 2021.

Further details of dividends on ordinary shares and capital notes provided for or paid are set out in note 20 to the consolidated financial statements.

## 4. Operating and financial review

### 4.1. Overview of the Group

The Group delivered net profit after tax attributable to owners of the Company of $403 million for the financial year ended 30 June 2021 (30 June 2020: $243 million). The result was driven by strong improvement in net interest income and a net impairment release, partly offset by reduced loan balances and increased operating expenses.

### 4.2. Financial position and capital structure

Net assets of the Group are $4,310 million (June 2020: $4,074 million). The increase was a result of total comprehensive income for the period of $423 million, partially offset by dividend payments of $187 million on ordinary shares and capital notes.

The regulatory Common Equity Tier 1 ratio continued to be strong at 10.06% (June 2020: 9.32%), above the target operating range of 9.0% - 9.5% of Risk Weighted Assets.

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

### 4.3. Review of principal businesses

Net interest income increased 4.3% to $1,242 million (30 June 2020: $1,191 million). This was primarily driven by strong growth in the Group's retail deposits and lower benchmark rates in the market.

Operating expenses increased 5.3% to $757 million (30 June 2020: $719 million), primarily due to increased investment in technology and the temporary increase in spending on strategic initiatives, partially offset by branch optimisation savings and reduced amortisation expense.

The net impairment release on loans and advances of $49 million (30 June 2020: $172 million loss) reflects a $60 million reduction in the collective provision due to the improvement in economic conditions since the outbreak of COVID-19.

Loans and advances decreased 0.7% to $57,324 million (30 June 2020: $57,723 million). The home lending portfolio contracted 0.9% over the financial year with mortgage settlements growth offset by continued elevated run-off as a result of customer repayments, property sales and refinancing. The business lending portfolio contracted 0.1% over the financial year, driven by a decline in the commercial portfolio offset by growth in the agribusiness portfolio.

Deposits increased 3.9% to $41,520 million (30 June 2020: $39,947 million). At-call transactions deposits grew 16.7% to $17,248 million (30 June 2020: $14,782 million) over the financial year. This was driven by continued momentum from improved product propositions and digital capabilities. This growth was complemented by at-call savings deposits growth of 16.4% to $16,180 million (30 June 2020: $13,902 million). The Group has continued to optimise the customer deposit portfolio mix and reduce reliance on more expensive term deposit funding, which decreased 28.2% to $8,092 million (30 June 2020: $11,263 million). The deliberate contraction in this funding source is a direct response to the continued growth in at-call transactions and savings deposits, availability of the Reserve Bank of Australia's Term Funding Facility and reduced funding requirements in line with subdued lending growth.

## 5. Significant changes in the state of affairs

Other than the matters included above and in the financial report, in the opinion of the directors, there were no significant changes in the state of affairs of the Group that occurred during the financial year.

## 6. Events subsequent to reporting date

Other than the early redemption of the Basel III transitional subordinated notes (refer to note 16 to the consolidated financial statements), 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 directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years. The Group notes the ongoing COVID-19 lockdowns that have been implemented subsequent to reporting date across a number of states. The impact of these lockdowns has been considered in the consolidated financial statements. The impact of COVID-19 on the Group's estimates and judgments is set out in note 2.3 to the consolidated financial statements.

## 7. Likely developments

There has been no substantial change in business operations, and no substantial changes are expected in the coming financial year.

## 8. Environmental regulation

The operations of the Group are not subject to any particular or significant environmental regulation under any law of the Commonwealth of Australia or any of its states or territories.

The Group has not incurred any liability (including for rectification costs) under any environmental legislation.

## 9. Indemnification and insurance of officers

### Indemnification

Under rule 39 of the Constitution for SGL, SGL indemnifies each person who is or has been a director, secretary or officer of the Company (each an officer for the purposes of this section). The indemnity relates to liabilities to the fullest extent permitted by law to another party (other than the Company or a related body corporate) that may arise in connection with the performance of their duties to the Company, except where the liability arises out of conduct involving a lack of good faith. The Constitution stipulates that SGL will meet the full amount of such liabilities, including costs and expenses incurred in defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under the *Corporations Act 2001*.

### Insurance premiums

During the financial year ended 30 June 2021, SGL paid insurance premiums in respect of a Directors' and Officers' Liability insurance contract. The contract insures each person who is or has been a director or officer (as defined in the *Corporations Act 2001*) of the Company against certain liabilities arising in the course of their duties to the Company. The directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

## 10. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the financial year ended 30 June 2021.

## 11. Rounding of amounts

The Company is of a kind referred to in *Australian Securities and Investments Commission 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 financial report have been rounded to the nearest one million dollars, unless otherwise stated.

This report is made in accordance with a resolution of the directors.

CHRISTINE MCLOUGHLIN, AM

Chairman

STEVE JOHNSTON

Group Chief Executive Officer and Managing Director

26 August 2021

# 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 audit of Suncorp-Metway Limited for the financial year ended 30 June 2021 there have been:

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

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

KPMG

KPMG

Scott Guse
Partner

Brisbane
26 August 2021

# Statements of comprehensive income

## For the financial year ended 30 June 2021

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Note | 2021 $M | 2020 $M | 2021 $M | 2020 $M |
| Interest income | 4.1 | 1,711 | 2,113 | 1,704 | 2,104 |
| Interest expense | 4.1 | (469) | (922) | (436) | (853) |
| **Net interest income** | 4.1 | 1,242 | 1,191 | 1,268 | 1,251 |
| Other operating income | 4.2 | 42 | 47 | 529 | 414 |
| **Total net operating income** | | 1,284 | 1,238 | 1,797 | 1,665 |
| Operating expenses | 5 | (757) | (719) | (1,272) | (1,162) |
| Impairment release (loss) on financial assets | 8.2 | 49 | (172) | 47 | (167) |
| **Profit before income tax** | | 576 | 347 | 572 | 336 |
| Income tax expense | 6.1 | (173) | (104) | (170) | (96) |
| **Profit for the financial year attributable to owners of the Company** | | 403 | 243 | 402 | 240 |
| | | | | | |
| **Other comprehensive income** | | | | | |
| *Items that will be reclassified subsequently to profit or loss* | | | | | |
| Net change in fair value of cash flow hedges | 19 | 6 | 43 | 6 | 43 |
| Net change in fair value of investment securities | 19 | 23 | (9) | 23 | (9) |
| Income tax expense | 19 | (9) | (10) | (9) | (10) |
| **Total other comprehensive income** | | 20 | 24 | 20 | 24 |
| **Total comprehensive income for the financial year attributable to owners of the Company** | | 423 | 267 | 422 | 264 |

The statements of comprehensive income are to be read in conjunction with the accompanying notes.

# Statements of financial position

## As at 30 June 2021

| | Note | Consolidated 2021 $M | Consolidated 2020 $M | Company 2021 $M | Company 2020 $M |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 12 | 68 | 211 | 66 | 210 |
| Receivables due from other banks | | 1,495 | 567 | 1,495 | 567 |
| Trading securities | 13 | 1,579 | 1,460 | 1,579 | 1,460 |
| Derivatives | 14 | 310 | 691 | 310 | 691 |
| Investment securities | 13 | 4,538 | 4,814 | 4,538 | 4,814 |
| Loans and advances | 7 | 57,324 | 57,723 | 57,161 | 57,563 |
| Due from related parties | 26.2 | 223 | 230 | 12,732 | 12,565 |
| Deferred tax assets | 6.2 | 49 | 78 | 46 | 74 |
| Other assets | | 279 | 172 | 258 | 150 |
| **Total assets** | | 65,865 | 65,946 | 78,185 | 78,094 |
| **Liabilities** | | | | | |
| Payables due to other banks | | 103 | 293 | 103 | 293 |
| Deposits | 10 | 41,520 | 39,947 | 41,700 | 39,967 |
| Derivatives | 14 | 272 | 534 | 272 | 534 |
| Payables and other liabilities | | 158 | 217 | 238 | 287 |
| Due to related parties | 26.2 | 84 | 80 | 14,355 | 15,128 |
| Borrowings | 11 | 18,746 | 20,129 | 16,581 | 17,184 |
| Subordinated notes | 16 | 672 | 672 | 672 | 672 |
| **Total liabilities** | | 61,555 | 61,872 | 73,921 | 74,065 |
| **Net assets** | | 4,310 | 4,074 | 4,264 | 4,029 |
| **Equity** | | | | | |
| Share capital | 17 | 2,754 | 2,754 | 2,754 | 2,754 |
| Capital notes | 18 | 585 | 585 | 585 | 585 |
| Reserves | 19 | (234) | (258) | 138 | 114 |
| Retained profits | | 1,205 | 993 | 787 | 576 |
| **Total equity attributable to owners of the Company** | | 4,310 | 4,074 | 4,264 | 4,029 |

The statements of financial position are to be read in conjunction with the accompanying notes.

# Statements of changes in equity

## For the financial year ended 30 June 2021

| Consolidated | Note | Share capital $M | Capital notes $M | Reserves $M | Retained profits $M | Total equity $M |
|---|---|---|---|---|---|---|
| **Balance as at 1 July 2019** | | 2,648 | 585 | (259) | 1,069 | 4,043 |
| Profit for the financial year | | - | - | - | 243 | 243 |
| Total other comprehensive income for the financial year | | - | - | 24 | - | 24 |
| **Total comprehensive income for the financial year** | | - | - | 24 | 243 | 267 |
| *Transactions with owners, recorded directly in equity* | | | | | | |
| Shares issued | 17 | 106 | - | - | - | 106 |
| Dividends paid | 20 | - | - | - | (342) | (342) |
| Transfers | 19 | - | - | (23) | 23 | - |
| **Balance as at 30 June 2020** | | 2,754 | 585 | (258) | 993 | 4,074 |
| Profit for the financial year | | - | - | - | 403 | 403 |
| Total other comprehensive income for the financial year | | - | - | 20 | - | 20 |
| **Total comprehensive income for the financial year** | | - | - | 20 | 403 | 423 |
| *Transactions with owners, recorded directly in equity* | | | | | | |
| Dividends paid | 20 | - | - | - | (187) | (187) |
| Transfers | 19 | - | - | 4 | (4) | - |
| **Balance as at 30 June 2021** | | 2,754 | 585 | (234) | 1,205 | 4,310 |

The statements of changes in equity are to be read in conjunction with the accompanying notes.

# Statements of changes in equity

## For the financial year ended 30 June 2021

| Company | Note | Share capital $M | Capital notes $M | Reserves $M | Retained profits $M | Total equity $M |
|---|---|---|---|---|---|---|
| **Balance as at 1 July 2019** | | 2,648 | 585 | 113 | 655 | 4,001 |
| Profit for the financial year | | - | - | - | 240 | 240 |
| Total other comprehensive income for the financial year | | - | - | 24 | - | 24 |
| **Total comprehensive income for the financial year** | | - | - | 24 | 240 | 264 |
| *Transactions with owners, recorded directly in equity* | | | | | | |
| Shares issued | 17 | 106 | - | - | - | 106 |
| Dividends paid | 20 | - | - | - | (342) | (342) |
| Transfers | 19 | - | - | (23) | 23 | - |
| **Balance as at 30 June 2020** | | 2,754 | 585 | 114 | 576 | 4,029 |
| Profit for the financial year | | - | - | - | 402 | 402 |
| Total other comprehensive income for the financial year | | - | - | 20 | - | 20 |
| **Total comprehensive income for the financial year** | | - | - | 20 | 402 | 422 |
| *Transactions with owners, recorded directly in equity* | | | | | | |
| Dividends paid | 20 | - | - | - | (187) | (187) |
| Transfers | 19 | - | - | 4 | (4) | - |
| **Balance as at 30 June 2021** | | 2,754 | 585 | 138 | 787 | 4,264 |

The statements of changes in equity are to be read in conjunction with the accompanying notes.

# Statements of cash flows

## For the financial year ended 30 June 2021

| | Note | Consolidated 2021 $M | Consolidated 2020 $M | Company 2021 $M | Company 2020 $M |
|---|---|---|---|---|---|
| Cash flows from operating activities | | | | | |
| Interest received | | 1,713 | 2,166 | 1,706 | 2,157 |
| Interest paid | | (536) | (1,029) | (503) | (956) |
| Fees and other operating income received | | 86 | 198 | 564 | 550 |
| Dividends and trust distributions received | | - | - | 8 | 15 |
| Fees and operating expenses paid | | (925) | (1,013) | (1,432) | (1,386) |
| Reimbursement to related parties for income tax payments | | (158) | (73) | (149) | (68) |
| *Changes in operating assets and liabilities arising from cash flow movements* | | | | | |
| Trading securities | | (119) | (232) | (119) | (232) |
| Loans and advances | | 441 | 1,229 | 442 | 1,213 |
| Due to (from) related parties | | 27 | 145 | (931) | (792) |
| Deposits | | 1,573 | 1,044 | 1,733 | 1,044 |
| Net cash from operating activities | 24.1 | 2,102 | 2,435 | 1,319 | 1,545 |
| Cash flows from investing activities | | | | | |
| Proceeds from the sale or maturity of investment securities | | 2,643 | 1,729 | 2,643 | 1,729 |
| Payments for acquisition of investment securities | | (2,417) | (2,229) | (2,417) | (2,229) |
| Net cash from (used in) investing activities | | 226 | (500) | 226 | (500) |
| Cash flows from financing activities | | | | | |
| Proceeds from borrowings | 11.1 | 9,503 | 9,667 | 9,503 | 9,667 |
| Repayment of borrowings, including transaction costs | 11.1 | (10,669) | (11,665) | (9,887) | (10,776) |
| Proceeds from issue of ordinary shares | 17 | - | 106 | - | 106 |
| Dividends paid | 20 | (187) | (342) | (187) | (342) |
| Net cash (used in) financing activities | | (1,353) | (2,234) | (571) | (1,345) |
| Net increase (decrease) in cash and cash equivalents | | 975 | (299) | 974 | (300) |
| Cash and cash equivalents at the beginning of the financial year | | 485 | 784 | 484 | 784 |
| Cash and cash equivalents at the end of the financial year | 24.2 | 1,460 | 485 | 1,458 | 484 |

The statements of cash flows are to be read in conjunction with the accompanying notes.

# Notes to the financial statements

For the financial year ended 30 June 2021

## Overview

**Suncorp-Metway Limited (the Company) and its subsidiaries (the Group) provides banking and related services to retail, commercial, small and medium enterprises and agribusiness customers in Australia. The Group conducts the Banking operations of the Suncorp Group.**

The financial report is structured to provide prominence to the disclosures that are considered most relevant to the users' understanding of the operations, results and financial position of the Group.

Information in the notes to the financial statements is only included if it is material and relevant to the understanding of the financial statements and results of the Group. Information is considered material and relevant if:

– the amount is significant in size or nature;
– it is essential to understanding the Group's results;
– it is critical in explaining significant changes in the Group's business operations – for example significant business acquisitions or disposals;
– it relates to an aspect of the Group's operations that is important to its future performance; and
– it is required under the relevant reporting and legislative frameworks applied by the Group.

## 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 financial statements for the financial year ended 30 June 2021 comprise the Company and its subsidiaries (the **Group**) and were authorised for issue by the Board of Directors on 26 August 2021.

The Company's immediate parent entity is SBGH Limited and its ultimate parent entity is Suncorp Group Limited (**SGL**). SGL and its subsidiaries are referred to as the Suncorp Group.

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

## 2. Basis of preparation

The Company and the Group are for-profit entities and their financial statements have been prepared on the historical cost basis unless the application of fair value measurements is required by relevant accounting standards.

The financial statements are presented in Australian dollars which is the Company's functional and presentation currency and the functional currency of the Group's subsidiaries.

There were no substantial amendments to Australian Accounting Standards adopted during the period that have a material impact on the Group. All accounting policies applied by the Group in this consolidated financial report are the same as those applied in its consolidated financial report for the financial year ended 30 June 2020.

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

The statements of financial position are prepared in a liquidity format. In the notes, amounts expected to be recovered or settled no more than 12 months after the reporting date are classified as 'current', otherwise they are classified as 'non-current'.

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

## 2.1 Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*. The financial statements comply with International Financial Reporting Standards (**IFRS**) and Interpretations issued by the International Accounting Standards Board.

## 2.2 Foreign currency

Transactions, assets and liabilities denominated in foreign currencies are translated into Australian dollars (the functional currency of the Group) using the following applicable exchange rates:

| Foreign currency | Applicable exchange rate |
|---|---|
| Transactions | Exchange rate at date of transaction |
| Monetary assets and liabilities | Exchange rate at reporting date |
| Non-monetary assets and liabilities at historical cost | Exchange rate at date of transaction |
| Non-monetary assets and liabilities at fair value | Exchange rate at date fair value is determined |

The resulting foreign exchange gains and losses on monetary items are recognised as revenue or expenses in the financial year in which the exchange rate difference arises with the exception of qualifying cash flow hedges which are deferred to equity reserves and are recognised in other comprehensive income (**OCI**).

## 2.3 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:

- provisions for impairment on financial assets (refer to note 8.3 and note 23.1)
- valuation of financial instruments carried at fair value (refer to note 14 and note 15)
- contingent liabilities (refer to note 28)

### COVID-19 impact on the use of estimates and assumptions

Given the ongoing economic uncertainties from COVID-19, the Group has continued to monitor its financial reporting procedures and governance practices surrounding the preparation of the consolidated financial statements. While the effects of COVID-19 do not change the areas requiring significant estimation and judgment in the preparation of consolidated financial statements, it has resulted in estimation uncertainty and application of further judgment within those identified areas and where relevant, is disclosed in the notes to this financial report. Consistent with previous periods the most significant area impacted by COVID-19 is the provision for impairment on financial assets which is outlined in note 8.3.

# Financial performance

**The Group earns its returns from providing a broad range of banking products and services to retail, commercial, small and medium enterprises and agribusiness customers in Australia. The Group incurs costs associated with running the business such as staff, occupancy and technology related expenses.**

**This section provides details of the main contributors to the Group's returns.**

## 3. Segment reporting

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

As the Group operates in only one segment, being Banking, the consolidated results of the Group are also its segment results for the current and prior periods.

The Group operates predominantly in one geographical segment, which is Australia. Revenue from overseas customers is not material to the Group.

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 2020.

## 4. Net operating income

### 4.1 Net interest income

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2021 $M | 2020 $M | 2021 $M | 2020 $M |
| **Interest income** | | | | |
| Cash and cash equivalents | - | 2 | - | 2 |
| Receivables due from other banks | - | 1 | - | 1 |
| Trading securities | 3 | 11 | 3 | 11 |
| Investment securities | 65 | 99 | 65 | 99 |
| Loans and advances | 1,643 | 2,000 | 1,636 | 1,991 |
| **Total interest income** | 1,711 | 2,113 | 1,704 | 2,104 |
| **Interest expense** | | | | |
| Deposits | (213) | (487) | (214) | (490) |
| Derivatives[1] | (26) | 3 | (26) | 3 |
| Borrowings | | | | |
| at amortised cost | (212) | (390) | (178) | (318) |
| designated at fair value through profit or loss | (4) | (29) | (4) | (29) |
| Subordinated notes | (14) | (19) | (14) | (19) |
| **Total interest expense** | (469) | (922) | (436) | (853) |
| **Net interest income** | 1,242 | 1,191 | 1,268 | 1,251 |

1 Represents the net interest income/expense from derivative instruments which are utilised to hedge interest rate risk in accordance with the Group's risk management practices.

#### Accounting policies

Interest income and expense on financial assets or liabilities at amortised cost are recognised in profit or loss using the effective interest method. This includes fees and commission income and expense (e.g. lending fees) that are integral to the effective interest rate on a financial asset or liability.

Interest income and expense on financial assets or liabilities at fair value are recognised in profit or loss when earned or incurred.

## 4.2 Other operating income

| | Consolidated 2021 $M | Consolidated 2020 $M | Company 2021 $M | Company 2020 $M |
|---|---|---|---|---|
| Banking fee and commission income | 160 | 174 | 160 | 174 |
| Banking fee and commission expense | (146) | (149) | (146) | (149) |
| Net banking fee and commission income | 14 | 25 | 14 | 25 |
| Net gains or losses on: | | | | |
| Trading securities at FVTPL[1] | - | 1 | - | 1 |
| Derivative financial instruments at FVTPL | (3) | (1) | (3) | (1) |
| Financial liabilities at FVTPL | 1 | 1 | 1 | 1 |
| Amount recycled into profit or loss on derecognition of investment securities at FVOCI[2] | 23 | 12 | 23 | 12 |
| Securitisation and covered bond income | - | - | 437 | 319 |
| Other fees and commissions | - | - | 42 | 31 |
| Dividend income | - | - | 8 | 15 |
| Other revenue | 7 | 9 | 7 | 11 |
| | 28 | 22 | 515 | 389 |
| **Total other operating income** | 42 | 47 | 529 | 414 |

1 Fair value through profit or loss (**FVTPL**).

2 Fair value through other comprehensive income (**FVOCI**).

### Accounting policies

Non-yield related application and activation lending fees received are recognised as income when the loan is disbursed or the commitment to lend expires.

Service fees that represent the recoupment of the costs of providing service, for example maintaining and administering existing facilities, are recognised when the performance obligation is satisfied. Fees can be recognised over time (e.g. annual fees) or at a point in time, when a promised good or service is transferred to a customer (e.g. late payment fees).

Fair value gains and losses from financial assets and liabilities at FVTPL are recognised in the consolidated statements of comprehensive income immediately.

Dividends and distribution income are recognised when the right to receive income is established.

## 5. Operating expenses

| | Consolidated 2021 $M | Consolidated 2020 $M | Company 2021 $M | Company 2020 $M |
|---|---|---|---|---|
| Wages, salaries and other staff costs | 390 | 364 | 390 | 364 |
| Occupancy and equipment expenses | 70 | 60 | 70 | 60 |
| Information technology and communication | 108 | 78 | 108 | 78 |
| Depreciation and amortisation | 50 | 66 | 50 | 66 |
| Securitisation and covered bond expenses | - | - | 515 | 443 |
| Other expenses | 139 | 151 | 139 | 151 |
| **Total operating expenses** | 757 | 719 | 1,272 | 1,162 |

Operating expenses such as employee expenses, depreciation and amortisation are incurred directly by Suncorp Group's corporate service subsidiaries and recharged to the Group via an internal allocation methodology.

# 6. Income tax

## 6.1 Income tax expense

| | Consolidated 2021 $M | Consolidated 2020 $M | Company 2021 $M | Company 2020 $M |
|---|---|---|---|---|
| **Reconciliation of prima facie to actual income tax expense:** | | | | |
| Profit before income tax | 576 | 347 | 572 | 336 |
| Prima facie domestic corporate tax rate of 30% (2020: 30%) | 173 | 104 | 172 | 101 |
| **Tax effect of:** | | | | |
| Intercompany dividend elimination | - | - | (2) | (5) |
| **Total income tax expense on pre-tax profit** | 173 | 104 | 170 | 96 |
| Effective tax rate | 30.0% | 30.0% | 29.7% | 28.6% |
| **Income tax expense recognised in profit consists of:** | | | | |
| **Current tax expense (benefit)** | | | | |
| Current tax movement | 156 | 152 | 154 | 142 |
| Adjustments for prior financial years | (3) | (1) | (3) | (1) |
| **Total current tax expense** | 153 | 151 | 151 | 141 |
| **Deferred tax expense (benefit)** | | | | |
| Origination and reversal of temporary differences | 17 | (47) | 16 | (45) |
| Adjustments for prior financial years | 3 | - | 3 | - |
| **Total deferred tax expense** | 20 | (47) | 19 | (45) |
| **Total income tax expense** | 173 | 104 | 170 | 96 |

## 6.2 Deferred tax assets and liabilities

Deferred tax assets (DTA) and deferred tax liabilities (DTL) are attributable to the following:

| | Consolidated | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | DTA | | DTL | | DTA | | DTL | |
| | 2021 $M | 2020 $M | 2021 $M | 2020 $M | 2021 $M | 2020 $M | 2021 $M | 2020 $M |
| Trading securities and investment securities | - | - | 22 | 15 | - | - | 22 | 15 |
| Provision for impairment on financial assets | 72 | 92 | - | - | 68 | 88 | - | - |
| Other items | - | 1 | 1 | - | - | 1 | - | - |
| Deferred tax assets and liabilities | 72 | 93 | 23 | 15 | 68 | 89 | 22 | 15 |
| Set-off of tax | (23) | (15) | (23) | (15) | (22) | (15) | (22) | (15) |
| **Net deferred tax assets** | 49 | 78 | - | - | 46 | 74 | - | - |

Movement in deferred tax balances during the financial year:

| | Consolidated | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | DTA | | DTL | | DTA | | DTL | |
| | 2021 $M | 2020 $M | 2021 $M | 2020 $M | 2021 $M | 2020 $M | 2021 $M | 2020 $M |
| Balance at the beginning of the financial year | 78 | 42 | - | - | 74 | 40 | - | - |
| Movement recognised in profit or loss | (21) | 47 | (1) | - | (20) | 45 | (1) | - |
| Movement recognised in OCI | - | - | 9 | 10 | - | - | 9 | 10 |
| Transfer of assets/liabilities to Group Companies | - | (1) | - | - | - | (1) | - | - |
| Reclassifications | (8) | (10) | (8) | (10) | (8) | (10) | (8) | (10) |
| **Balance at the end of the financial year** | 49 | 78 | - | - | 46 | 74 | - | - |

### Accounting policies

Income tax expense comprises current and deferred tax and is recognised in profit or loss except to the extent that it relates to items recognised in equity or in OCI. Current tax consists of the expected tax payable on the taxable income for the year, after any adjustments in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences can be utilised. Provisions for taxation require the Group to take into account the impact of uncertain tax positions. For such uncertainties, the Group relies on estimates and assumptions about future events.

#### Tax consolidation

The Group is a wholly-owned entity in a tax-consolidated group, with Suncorp Group Limited as the head entity.

The Company and each of its wholly-owned subsidiaries recognise the current and deferred tax amounts applicable to the transactions undertaken by it, reasonably adjusted for certain intra-group transactions, as if it continued to be a separate tax payer. The head entity recognises the entire tax-consolidated group's current tax liability. Any differences, per subsidiary, between the current tax liability and any tax funding arrangement amounts (see below) are recognised by the head entity as an equity contribution to or distribution from the subsidiary.

The members of the tax-consolidated group have entered into a tax-sharing agreement and a tax funding agreement. Under the tax funding agreement, the Group fully compensates the Suncorp Group for any current tax payable assumed. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities, at call.

# Lending activities

**The Group provides a broad range of lending products to retail, commercial, small and medium enterprises (SME) and agribusiness customers within Australia. This section provides details of the Group's lending portfolio by customer segment and related impairment provisions. This section also covers the Group's credit commitments.**

## 7. Loans and advances

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Note | 2021 $M | 2020 $M | 2021 $M | 2020 $M |
| **Retail loans** | | | | | |
| Housing loans | | 41,688 | 40,403 | 41,688 | 40,403 |
| Securitised housing loans and covered bonds[1] | | 4,374 | 6,071 | 4,374 | 6,071 |
| Consumer loans | | 122 | 155 | 122 | 155 |
| | | 46,184 | 46,629 | 46,184 | 46,629 |
| **Business loans** | | | | | |
| Commercial (SME) | | 7,151 | 7,314 | 7,069 | 7,226 |
| Agribusiness | | 4,228 | 4,081 | 4,139 | 3,999 |
| | | 11,379 | 11,395 | 11,208 | 11,225 |
| Gross loans and advances | | 57,563 | 58,024 | 57,392 | 57,854 |
| Provision for impairment | 8 | (239) | (301) | (231) | (291) |
| Net loans and advances | | 57,324 | 57,723 | 57,161 | 57,563 |
| Current | | 10,590 | 10,036 | 10,578 | 10,019 |
| Non-current | | 46,734 | 47,687 | 46,583 | 47,544 |
| Net loans and advances | | 57,324 | 57,723 | 57,161 | 57,563 |

1 Excludes internally held notes for repurchase with central banks. Refer to note 15.3 for further details.

During the year, the Group continued to support customers who experienced financial difficulties as a result of the COVID-19 global pandemic and offered a range of industry-wide financial assistance measures including temporary loan repayment deferrals (principal and interest). The capital relief provided by the Australian Prudential Regulation Authority (**APRA**) ceased on 31 March 2021. As a result, loans and advances subject to COVID-19 financial assistance packages were nil at 30 June 2021 (30 June 2020: $4,828 million, comprised of housing loans of $3,752 million, SME lending of $697 million and other business and retail lending of $379 million).

### Accounting policies

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are facilities the Group provides directly to customers or through third party channels.

Financial assets are classified as amortised cost where cash flows are solely payments of principal and interest (**SPPI**) and the business model is held-to-collect. Loans and advances are included in this category. They are initially measured at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost less any impairment losses.

#### Modification of contractual cash flows

In cases where borrowers face financial difficulties, the Group may grant a change to the terms and conditions of their loan repayments for a specific period to avoid the customers defaulting on their loan. These changes can include payment deferrals, change in amortisation periods, and temporary change in interest rates. Loans restructured on commercial terms with a significant modification of contractual cash flows are considered a re-origination. In this case, the asset will be derecognised and a new asset will be recognised.

For modifications that do not result in a derecognition, a modification gain or loss will be calculated based on the difference between the present value of the renegotiated or modified contractual cash flows and the gross carrying amount prior to modification. The present value is determined using the loan's original effective interest rate.

#### Derecognition

Loans and advances are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Group has transferred substantially all risk and rewards of ownership.

# 8. Provision for impairment on financial assets

## 8.1 Reconciliation of provision for impairment on financial assets

The tables below show the reconciliation of expected credit loss (**ECL**), specific provision (**SP**) and gross carrying amount for loans and advances (**GLA**) for the financial year ended 30 June 2021.

| | Collective provision | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Stage 3 SP | | Total | |
| Consolidated | GLA $M | ECL $M | GLA $M | ECL $M | GLA $M | ECL $M | GLA $M | SP $M | GLA $M | Provision $M |
| **As at 1 July 2019** | 56,631 | 42 | 1,905 | 37 | 638 | 32 | 122 | 31 | 59,296 | 142 |
| Transfers: | | | | | | | | | | |
| Transfer to stage 1 | 982 | 16 | (854) | (12) | (128) | (4) | - | - | - | - |
| Transfer to stage 2 | (1,484) | (4) | 1,558 | 6 | (74) | (2) | - | - | - | - |
| Transfer to stage 3 | (273) | - | (264) | (7) | 491 | 5 | 46 | 2 | - | - |
| New loans and advances originated | 8,743 | 27 | - | - | - | - | - | - | 8,743 | 27 |
| Net increase (release) of ECL/SP | - | 61 | - | 54 | - | 29 | - | 28 | - | 172 |
| Loans and advances derecognised | (9,523) | (18) | (322) | (4) | (134) | (3) | (36) | (5) | (10,015) | (30) |
| SP written-off | - | - | - | - | - | - | - | (7) | - | (7) |
| Unwind of discount | - | - | - | - | - | - | - | (3) | - | (3) |
| **As at 1 July 2020** | 55,076 | 124 | 2,023 | 74 | 793 | 57 | 132 | 46 | 58,024 | 301 |
| Transfers: | | | | | | | | | | |
| Transfer to stage 1 | 1,049 | 34 | (918) | (27) | (131) | (7) | - | - | - | - |
| Transfer to stage 2 | (904) | (10) | 1,076 | 20 | (170) | (9) | (2) | (1) | - | - |
| Transfer to stage 3 | (319) | (2) | (120) | (8) | 399 | 4 | 40 | 6 | - | - |
| New loans and advances originated | 11,082 | 34 | - | - | - | - | - | - | 11,082 | 34 |
| Net increase (release) of ECL/SP | - | (62) | - | 8 | - | 21 | - | 16 | - | (17) |
| Loans and advances derecognised | (10,918) | (25) | (407) | (17) | (179) | (14) | (39) | (11) | (11,543) | (67) |
| SP written-off | - | - | - | - | - | - | - | (9) | - | (9) |
| Unwind of discount | - | - | - | - | - | - | - | (3) | - | (3) |
| **As at 30 June 2021** | 55,066 | 93 | 1,654 | 50 | 712 | 52 | 131 | 44 | 57,563 | 239 |
| *Provision for impairment on:* | | | | | | | | | | |
| Loans and advances | (81) | | (45) | | (52) | | (44) | | (222) | |
| Commitments & guarantees | (12) | | (5) | | - | | - | | (17) | |
| **Net carrying amount as at 30 June 2021** | 54,973 | | 1,604 | | 660 | | 87 | | 57,324 | |

| Company | Collective provision Stage 1 GLA $M | Stage 1 ECL $M | Stage 2 GLA $M | Stage 2 ECL $M | Stage 3 GLA $M | Stage 3 ECL $M | Stage 3 SP GLA $M | Stage 3 SP SP $M | Total GLA $M | Total Provision $M |
|---|---|---|---|---|---|---|---|---|---|---|
| As at 1 July 2019 | 56,456 | 39 | 1,895 | 35 | 636 | 31 | 122 | 31 | 59,109 | 136 |
| Transfers: | | | | | | | | | | |
| Transfer to stage 1 | 979 | 15 | (851) | (11) | (128) | (4) | - | - | - | - |
| Transfer to stage 2 | (1,470) | (4) | 1,544 | 6 | (74) | (2) | - | - | - | - |
| Transfer to stage 3 | (271) | - | (264) | (7) | 489 | 5 | 46 | 2 | - | - |
| New loans and advances originated | 8,669 | 27 | - | - | - | - | - | - | 8,669 | 27 |
| Net increase (release) of ECL/SP | - | 57 | - | 52 | - | 28 | - | 28 | - | 165 |
| Loans and advances derecognised | (9,442) | (17) | (314) | (3) | (132) | (2) | (36) | (5) | (9,924) | (27) |
| SP written-off | - | - | - | - | - | - | - | (7) | - | (7) |
| Unwind of discount | - | - | - | - | - | - | - | (3) | - | (3) |
| As at 1 July 2020 | 54,921 | 117 | 2,010 | 72 | 791 | 56 | 132 | 46 | 57,854 | 291 |
| Transfers: | | | | | | | | | | |
| Transfer to stage 1 | 1,045 | 33 | (914) | (26) | (131) | (7) | - | - | - | - |
| Transfer to stage 2 | (894) | (9) | 1,066 | 19 | (170) | (9) | (2) | (1) | - | - |
| Transfer to stage 3 | (318) | (2) | (119) | (8) | 398 | 4 | 39 | 6 | - | - |
| New loans and advances originated | 11,007 | 30 | - | - | - | - | - | - | 11,007 | 30 |
| Net increase (release) of ECL/SP | - | (57) | - | 7 | - | 20 | - | 16 | - | (14) |
| Loans and advances derecognised | (10,852) | (24) | (401) | (16) | (177) | (13) | (39) | (11) | (11,469) | (64) |
| SP written-off | - | - | - | - | - | - | - | (9) | - | (9) |
| Unwind of discount | - | - | - | - | - | - | - | (3) | - | (3) |
| As at 30 June 2021 | 54,909 | 88 | 1,642 | 48 | 711 | 51 | 130 | 44 | 57,392 | 231 |
| *Provision for impairment on:* | | | | | | | | | | |
| Loans and advances | (76) | | (43) | | (51) | | (44) | | (214) | |
| Commitments & guarantees | (12) | | (5) | | - | | - | | (17) | |
| Net carrying amount as at 30 June 2021 | 54,821 | | 1,594 | | 660 | | 86 | | 57,161 | |

## 8.2 Impairment (release) loss on financial assets

| | Consolidated 2021 $M | Consolidated 2020 $M | Company 2021 $M | Company 2020 $M |
|---|---|---|---|---|
| (Decrease) increase in collective provision for impairment | (60) | 145 | (58) | 140 |
| Increase in specific provision for impairment | 10 | 25 | 10 | 25 |
| Bad debts written off | 2 | 3 | 2 | 3 |
| Bad debts recovered | (1) | (1) | (1) | (1) |
| Total impairment (release) loss on financial assets | (49) | 172 | (47) | 167 |

The collective provision release of $60 million (2020: $145 million loss) was driven by better economic outcomes than anticipated at the time of establishing the June 2020 collective provision, as well as improved forward-looking economic inputs to the ECL model, primarily unemployment levels and residential and commercial property prices. Refer note 8.3 for further details.

## Accounting policies

By providing loans and advances to customers, the Group is exposed to credit risk. Accordingly, there will be instances where the Group will not receive the full amount owed, hence provisions for impairment are recognised.

### Expected credit loss model

The Group has developed the ECL model to estimate the adverse impact on future cash flows for each group of loans with similar credit risk characteristics.

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 the unemployment rate and changes in property 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 risks that have not 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:

| | Asset quality | Provision established to provide for ECL for: |
|---|---|---|
| Stage 1 | Performing and/or newly originated assets. | A 12 month period. |
| Stage 2 | Have experienced a significant increase in credit risk (**SICR**) since origination. | The remaining term of the asset (**lifetime ECL**). |
| Stage 3 | In default as they are either past due but not impaired or impaired assets. | Lifetime ECL. |

Portfolio managed assets in stage 3 (mainly retail lending), will have a collective provision determined by the ECL model. The portfolios are split into pools with homogenous risk profiles and pool estimates of probability of default and loss given default. Some portfolio managed assets are individually covered by a specific provision.

The majority of relationship managed assets in stage 3 (mainly business lending) will require a specific provision. If it is determined that a collective provision provides a more appropriate estimate, a ratings-based approach is applied using estimates of probability of default and loss given default, at a customer level.

Loans with similar credit risk characteristics are grouped as follows:

- Retail loans, small business and non-credit risk-rated business loans are grouped by product.
- Credit risk-rated business loans are grouped by the industry types, being agribusiness, commercial, property development finance and property investment.

The independent Business Customer Support and Collections teams provide the Chief Risk Officer, Banking & Wealth and the Bank Credit Risk Committee with analysis of the carrying value of impaired loans and factors impacting recoverability.

### Significant increase in credit risk

A SICR event occurs if a loan deteriorates on the master rating scale (**MRS**) by a defined number of notches since origination or by going into arrears. Loans with a higher MRS at origination (higher risk) require fewer notch movements to trigger a SICR event than loans with a lower MRS at origination (lower risk). From the perspective of arrears, 30 days past due is always considered stage 2. Exposures for which the MRS subsequently improves to below the SICR threshold will move back to stage 1. Loans restructured on commercial terms with a significant modification of their terms and conditions are considered a re-origination and will be moved into stage 1. The incorporation of forward-looking information within the ECL includes a mechanism to allocate a proportion of portfolio exposure to stage 2, based on the macroeconomic outlook and is designed to capture SICR events that are not yet reflected in observed data at the exposure level.

### Specific provisions

A specific provision for impairment is recognised where there is objective evidence of impairment and full recovery of principal and interest is considered doubtful. The present value of the expected future cash flows is compared to the carrying amounts of the loan. All factors that have a bearing on the expected future cash flows are considered, including the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. These judgments can change as new information becomes available and work-out strategies evolve. The asset quality of an exposure carrying a specific provision is rated as stage 3.

The Group's policy requires the specific provisions that are above internal thresholds to be reviewed at least quarterly, and more regularly as circumstances require.

### Write-offs

A write-off is made when all practical recovery efforts have concluded and all or part of a financial asset is deemed unrecoverable or forgiven. Write-offs reduce the principal amount of a claim and are charged against previously established ECLs.

## 8.3 Expected credit loss model methodology, estimates and assumptions

### COVID-19 impact on significant estimates, judgments and assumptions

The provision for impairment on financial assets is considered to be a significant accounting estimate and judgment as forecast macroeconomic conditions are a key factor in determining the ECL for loans and advances. The COVID-19 pandemic and the associated prevention measures continue to have a profound impact on the Australian and global economy. Key economic indicators such as residential property prices and unemployment have improved. However, there remains downside economic risk associated with future lockdowns and delays in vaccine rollouts which could impede economic recovery.

### Reported expected credit loss

The Group calculates the ECL by considering a distribution of economic outcomes around a central underlying scenario, with the central scenario set considering the Group's view of the most likely economic scenario, as well as more adverse outcomes.

As the negative impact of an economic downturn on credit losses tends to be greater than the positive impact of an economic upturn, if the Group determines collective provision only on the ECL under the central forecast, or based on a limited number of discrete scenarios, it might maintain a level of collective provision that does not appropriately reflect the range of potential outcomes, including more severe downside events. To address this, AASB 9 *Financial Instruments* (**AASB 9**) requires the ECL to be the probability weighted ECL outcome calculated for a range of possible outcomes.

In determining the Reported ECL of $195 million as at 30 June 2021, a distribution of outcomes around the central economic scenario is adopted for both PD and LGD, taking into consideration observed variability in economic outcomes and collateral values. The macroeconomic outlook, as reflected in the central scenario, has improved since the outset of COVID-19. However, considerable uncertainty and potential for further downside risk remains, including the potential for economic fallout from further lockdowns, rolling back of government support and delays in the vaccine rollout.

Accordingly, the PD and LGD distributions around the central estimate incorporate an increased weighting to downside outcomes. For example, for LGD, the ECL reflects a 10 per cent probability that Queensland metro residential property prices fall in excess of 20.0 per cent over the next year. Similarly, the ECL calculation reflects a 10 per cent probability that national commercial property prices fall in excess of 29.2 per cent over the next year.

The central scenario incorporates a weighting of key macroeconomic information from three distinct views being Base, Downside and Severe Downside. The central scenario does reflect potential for worse outcomes than may be indicated by recent data points which indicate a more positive outlook. The views are described below:

- Base view reflects the assumptions used by the Group for business planning and forecasting.
- Downside view reflects a moderate shift to the downside in the short term in comparison to the base view. In the longer term the annual change is more aligned to the base view.
- Severe downside view reflects a significant and prolonged deterioration in the economic outlook.

The key macroeconomic information for the central scenario view is presented below:

| | Actual | Central (weighted view) | | |
|---|---|---|---|---|
| | FY20 | FY 21[1] | FY 22 | FY 23 |
| Property prices - residential - annual change (%) | 5.2 | 12.9 | (0.3) | (1.0) |
| Property prices - commercial - annual change (%) | (3.0) | (5.1) | (0.4) | 0.6 |
| Unemployment rate[2] (%) | 7.2 | 6.8 | 6.4 | 5.5 |

1 FY21 reflects a forecast as the actual figures were not available at the time of the model calibration.

2 The impact of unemployment on the modelled ECL is captured primarily via changes in the rate. For retail lending portfolios, defaults generally align with a lag following an increase in unemployment rate, whereas for business lending portfolios changes in unemployment tend to flow through more quickly and the future outlook becomes more relevant.

### Downside sensitivity expected credit loss

The ECL calculation relies on multiple variables and is inherently non-linear and portfolio-dependent, signifying no single analysis can fully demonstrate the sensitivity of the ECL to fluctuations in macroeconomic variables. As a result of economic uncertainty and the sensitivity to key macroeconomic variables, significant adjustments to the ECL could occur in future periods. To provide an indication of the impact of changes in key macroeconomic variables, a sensitivity analysis is conducted on the following key macroeconomic drivers as the ECL is most sensitive to these inputs:

- residential and commercial property prices,
- the unemployment rate, and
- a combination of simultaneous adverse movements in both the property prices and the unemployment rate as this highlights how the variables would interact in a downside scenario.

The table below describes how each of the three aforementioned drivers will impact the profit (loss) before tax with a corresponding impact on the ECL at reporting date.

| | Downside sensitivity | |
|---|---|---|
| | Movement in variable relative to central case | Pre-tax impact Profit (loss) $M |
| *Movement of variables in isolation* | | |
| Property prices - residential | Decrease ~400 bps over 2 years | (7) |
| Property prices - commercial | Decrease ~400 bps over 2 years | (14) |
| Unemployment rate | Increase 100 bps | (27) |
| *Movement of variables in combination* | | |
| Property prices - residential and commercial, and unemployment rate all move simultaneously | Adverse movements as above | (53) |

## 9. Commitments

In the ordinary course of business, various types of contracts are entered into relating to the financing needs of customers. Commitments to extend credit, letters of credit, guarantees, warranties and indemnities are classed as financial instruments and attract fees in line with market prices for similar arrangements and reflect the probability of default. They are not sold or traded and are not recorded in the statements of financial position. The Group uses the same credit policies and assessment criteria in making these commitments and conditional obligations as it does for on-balance sheet instruments. These commitments would be classified as loans and advances in the statements of financial position on the occurrence of the contingent event.

Detailed below are the notional amounts of credit commitments together with their credit equivalent amounts determined in accordance with the capital adequacy guidelines set out by APRA.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2021 $M | 2020 $M | 2021 $M | 2020 $M |
| Notional amounts | | | | |
| Guarantees entered into in the normal course of business | 292 | 331 | 292 | 331 |
| Commitments to provide loans and advances | 10,247 | 8,777 | 10,284 | 8,829 |
| | 10,539 | 9,108 | 10,576 | 9,160 |
| Credit equivalent amounts | | | | |
| Guarantees entered into in the normal course of business | 292 | 330 | 292 | 330 |
| Commitments to provide loans and advances | 2,889 | 1,818 | 2,926 | 1,870 |
| | 3,181 | 2,148 | 3,218 | 2,200 |

# Funding activities

The Group manages liquidity and funding risk to provide a sustainable funding profile and support balance sheet growth. The Group's main sources of funding are customer deposits, wholesale domestic and offshore funding and securitisation.

## 10. Deposits

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2021 $M | 2020 $M | 2021 $M | 2020 $M |
| At-call transactions deposits | 17,248 | 14,782 | 17,428 | 14,802 |
| At-call savings deposits | 16,180 | 13,902 | 16,180 | 13,902 |
| Term deposits | 8,092 | 11,263 | 8,092 | 11,263 |
| **Total deposits** | 41,520 | 39,947 | 41,700 | 39,967 |
| Current | 41,255 | 39,806 | 41,435 | 39,826 |
| Non-current | 265 | 141 | 265 | 141 |
| **Total deposits** | 41,520 | 39,947 | 41,700 | 39,967 |

## 11. Borrowings

| | Note | Consolidated 2021 $M | Consolidated 2020 $M | Company 2021 $M | Company 2020 $M |
|---|---|---|---|---|---|
| Short-term[1] securities issued in domestic market[2] | | 4,011 | 5,079 | 4,011 | 5,079 |
| Short term[1] offshore commercial paper[3] | | 1,763 | 1,498 | 1,763 | 1,498 |
| Long-term[1] domestic borrowings[2] | | 3,217 | 4,432 | 3,217 | 4,432 |
| Long-term[1] offshore borrowings[2] | | 1,370 | 2,486 | 1,370 | 2,486 |
| Total unsecured borrowings | | 10,361 | 13,495 | 10,361 | 13,495 |
| Covered bonds[2] | 15.3 | 2,091 | 2,589 | 2,091 | 2,589 |
| Securitisation liabilities[2] | 15.3 | 2,165 | 2,945 | - | - |
| Term funding facility[2] | 15.3 | 4,129 | 1,100 | 4,129 | 1,100 |
| Total secured borrowings | | 8,385 | 6,634 | 6,220 | 3,689 |
| **Total borrowings** | | 18,746 | 20,129 | 16,581 | 17,184 |
| Current | | 7,147 | 9,995 | 7,147 | 9,995 |
| Non-current | | 11,599 | 10,134 | 9,434 | 7,189 |
| **Total borrowings** | | 18,746 | 20,129 | 16,581 | 17,184 |

1 Short term is defined as original maturity of less than 12 months, and Long term is defined as original maturity of 12 months or greater.
2 Financial liabilities at amortised cost.
3 Financial liabilities at FVTPL.

Short-term borrowings outstanding at 30 June 2021 of $301 million (2020: $817 million) have been obtained under repurchase agreements with the Reserve Bank of Australia (**RBA**) and disclosed within the above category of 'Short-term securities issued in domestic market'.

The Group has elected to recognise its US Commercial Paper portfolio at fair value through the profit or loss on the basis that it is economically hedged by forward foreign exchange contracts. The fair value of forward foreign exchange contracts used as economic hedges of monetary liabilities in foreign currencies as at 30 June 2021 is a $49 million asset (2020: $41 million liability).

The contractual amount payable on financial liabilities designated at FVTPL at maturity is $1,763 million (2020: $1,498 million).

### Accounting policies

#### Financial liabilities at amortised cost

All borrowings held by the Group are initially recognised at fair value, inclusive of any directly attributable costs. Subsequent to initial recognition, all borrowings (except for those designated at FVTPL, outlined below) are measured at amortised cost. Interest incurred is recognised using the effective interest method. The Group's financial liabilities at amortised cost includes "Deposits" (refer to note 10) and "Borrowings" (refer to note 11).

#### Financial liabilities designated at fair value through profit or loss

The Group designates certain financial liabilities at FVTPL on origination when doing so eliminates or reduces an accounting mismatch.

Subsequent to initial recognition, these liabilities are measured at fair value. Changes in the fair value of the liability are recognised in profit or loss. However, the portion of the change in the fair value of the liability attributable to changes in the Group's own credit risk is recognised in OCI, with no recycling to profit or loss, unless such treatment would create or enlarge an accounting mismatch in profit or loss.

### 11.1 Changes in liabilities arising from financing activities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2021<br>$M | 2020<br>$M | 2021<br>$M | 2020<br>$M |
| Balance at beginning of period | 20,129 | 21,837 | 17,184 | 18,006 |
| Cash flows | | | | |
| Proceeds | 9,503 | 9,667 | 9,503 | 9,667 |
| Repayments | (10,667) | (11,661) | (9,885) | (10,772) |
| Transaction costs | (2) | (4) | (2) | (4) |
| Non-cash changes | | | | |
| Fair value changes | (36) | 69 | (36) | 69 |
| Foreign exchange movement | (202) | 172 | (202) | 172 |
| Other movements | 21 | 49 | 19 | 46 |
| Balance as at end of period | 18,746 | 20,129 | 16,581 | 17,184 |

# Investing, trading & other banking activities

The Group holds a number of other assets to support its primary operating activities and effectively manage risk. These include cash and cash equivalents, trading and investment securities and derivative financial instruments. This section outlines the details of these other assets.

This section also covers the Group's methodology for determining the fair value of financial instruments, including information on netting and collateral arrangements.

## 12. Cash and cash equivalents

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2021<br>$M | 2020<br>$M | 2021<br>$M | 2020<br>$M |
| Cash at bank | 65 | 67 | 63 | 66 |
| Reverse repurchase agreements maturing in less than three months | - | 50 | - | 50 |
| Other money market placements | 3 | 94 | 3 | 94 |
| Total cash and cash equivalents | 68 | 211 | 66 | 210 |

### Accounting policies

Cash and cash equivalents include cash on hand, cash at branches, cash on deposit, balances with the RBA, highly liquid short-term investments, money at short call, and securities held under reverse repurchase agreements with an original maturity of three months or less. Receivables due from and payables due to other banks are classified as cash equivalents for cash flow purposes.

## 13. Trading and investment securities

| Consolidated and Company | 2021 $M | 2020 $M |
|---|---|---|
| **Trading securities** | | |
| *Financial assets at FVTPL* | | |
| Interest-bearing securities: | | |
| Bank bills, certificates of deposit and other securities - current | 1,579 | 1,460 |
| **Investment securities** | | |
| *Financial assets at FVOCI* | | |
| Interest-bearing securities: | | |
| Government bonds, RMBS[1] and investment grade bank bonds | 4,538 | 4,814 |
| Current | 480 | 691 |
| Non-current | 4,058 | 4,123 |
| **Total investment securities** | 4,538 | 4,814 |

1 Residential mortgage-backed securities (**RMBS**).

### Accounting policies

The Group determines whether each financial asset's contractual cash flows are SPPI and how the financial asset is managed.

#### Trading securities

Trading securities include debt securities that the Group acquires for the purpose of selling in the near term or holds as part of a portfolio that is managed together for short term profit making. These securities are therefore classified at FVTPL. They are initially recognised on trade date at fair value, and subsequently measured at fair value on each reporting date with gains and losses taken immediately to profit or loss.

#### Investment securities

Investment securities include debt securities held as part of the Group's liquidity portfolio. These securities are held-to-collect-and-to-sell (regular, but not frequent sales) and SPPI. These securities are therefore classified at FVOCI. These are initially recognised at fair value plus directly attributable transaction costs, and subsequently measured at fair value with gains and losses taken through OCI. On derecognition, the accumulated OCI will be recycled to profit or loss in 'Other operating income'.

## 14. Derivative financial instruments

| | 2021 | | 2020 | |
|---|---|---|---|---|
| Consolidated and Company | Asset $M | Liability $M | Asset $M | Liability $M |
| **Interest rate** | | | | |
| Non-hedge accounting | 21 | 23 | 46 | 43 |
| Hedge accounting | 235 | 240 | 375 | 444 |
| | 256 | 263 | 421 | 487 |
| **Interest rate and foreign exchange** | | | | |
| Non-hedge accounting | 1 | - | 1 | 1 |
| Hedge accounting | 3 | 8 | 262 | - |
| | 4 | 8 | 263 | 1 |
| **Foreign exchange** | | | | |
| Non-hedge accounting | 50 | 1 | 7 | 46 |
| | 50 | 1 | 7 | 46 |
| **Total derivative exposures** | | | | |
| Non-hedge accounting | 72 | 24 | 54 | 90 |
| Hedge accounting | 238 | 248 | 637 | 444 |
| | 310 | 272 | 691 | 534 |

Derivative financial instruments are contracts whose values are derived from one or more underlying prices, benchmarks or other variables. Derivatives are used by the Group to manage interest rate and foreign exchange risk. Non-hedge accounting derivatives are those derivatives that are classified as "held for trading" which are either not designated in a qualifying hedge accounting relationship, or acquired or incurred principally for the purpose of selling or repurchasing in the near term, or held as part of a portfolio that is managed together for short-term profit or position taking. Hedge accounting derivatives are those derivatives that are designated in a qualifying hedge accounting relationship.

The maturity profile of hedge accounted derivatives is summarised at note 23.2.

### Accounting policies

All derivatives are initially recognised at fair value on trade date and transaction costs are recognised in profit or loss as incurred. Derivatives are classified and measured at FVTPL unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting.

## 14.1 Derivative financial instruments – hedge accounting

The following table sets out the types of hedge accounting relationships used by the Group.

| Type of hedge | Fair value hedge | Cash flow hedge |
|---|---|---|
| Objective | To hedge changes in fair value of financial assets and liabilities arising from interest rate risk. | To hedge variability in cash flows from recognised financial assets and liabilities arising from interest rate and foreign currency risk. |
| Hedged risk | Interest rate risk | Interest rate risk<br>Foreign exchange risk |
| Hedging instruments | Pay fixed / receive variable interest rate swaps<br>Receive fixed / pay variable interest rate swaps<br>Receive fixed foreign currency / pay variable local currency cross currency swaps | Receive fixed / pay variable interest rate swaps<br>Pay fixed / receive variable interest rate swaps<br>Receive fixed foreign currency / pay variable local currency cross currency swaps |
| Hedged item | Fixed interest financial assets and liabilities | Variable interest financial assets and liabilities |
| Economic relationship test | Matched terms | Regression analysis |
| Hedge effectiveness testing | Cumulative dollar offset<br>Hedge ratio 1:1 | Cumulative dollar offset<br>Hedge ratio 1:1 |
| Potential sources of ineffectiveness | Differences between the hedging instrument and hedged item, including: interest curves used for discounting; interest rate reset date or frequency; and changes in credit risk. | Differences between the hedging instrument and hedged item, including: interest rate reset date or frequency; changes in credit risk; and prepayment risk on hedged items. |

The following table shows the maturity profile for hedging instruments by notional amount, reported based on their contractual maturity.

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Notional | | | | Notional | | | |
| Consolidated and Company | 0 to 12 months $M | 1 to 5 years $M | Over 5 years $M | Total $M | 0 to 12 months $M | 1 to 5 years $M | Over 5 years $M | Total $M |
| Interest rate risk | | | | | | | | |
| Fair value hedge | 35 | 125 | 455 | 615 | 400 | 160 | 551 | 1,111 |
| Cash flow hedge | 11,793 | 25,769 | 625 | 38,187 | 9,536 | 26,002 | 625 | 36,163 |
| Interest rate and foreign exchange risk | | | | | | | | |
| Fair value and cash flow hedge | 665 | 665 | - | 1,330 | 948 | 1,458 | - | 2,406 |

The table below shows the average executed price or rate of the hedging instrument for interest rate exposures:

| | 2021 | 2020 |
|---|---|---|
| Interest rate swaps: | | |
| AUD average fixed interest rate | | |
| Hedging investment securities | 2.47% | 3.31% |
| Hedging loans and advances | 1.14% | 1.64% |
| Hedging deposits and borrowings | 1.10% | 1.63% |
| Cross currency swaps: | | |
| Average AUD/USD exchange rate | 0.7288 | 0.7405 |
| Average fixed interest rate USD | 2.99% | 2.78% |

The following table shows amounts related to designated hedging instruments, including the fair value changes for the period used as the basis for calculating hedge ineffectiveness.

| Consolidated and Company | Carrying amount assets $M | Carrying amount liabilities $M | Gains (losses) on hedging instruments $M | Gains (losses) attributable to hedged risk $M | Hedge ineffectiveness in profit or (loss)[1] $M |
|---|---|---|---|---|---|
| 2021 | | | | | |
| Interest rate risk | | | | | |
| Fair value hedge - interest rate swaps | 2 | 45 | 53 | (53) | - |
| Cash flow hedge - interest rate swaps | 233 | 195 | 12 | (12) | - |
| Interest rate and foreign exchange risk | | | | | |
| Fair value and cash flow hedge - cross currency swaps | 3 | 8 | (264) | 264 | - |
| Total | 238 | 248 | (199) | 199 | - |
| 2020 | | | | | |
| Interest rate risk | | | | | |
| Fair value hedge - interest rate swaps | - | 96 | (4) | 5 | 1 |
| Cash flow hedge - interest rate swaps | 375 | 348 | 42 | (44) | - |
| Interest rate and foreign exchange risk | | | | | |
| Fair value and cash flow hedge - cross currency swaps | 262 | - | 29 | (29) | - |
| Total | 637 | 444 | 67 | (68) | 1 |

1 Hedge ineffectiveness is recognised as part of 'Other operating income' in the statements of comprehensive income (SOCI).

The following table shows amounts relating to designated hedged items:

| Consolidated and Company | Carrying amount $M | Accumulated fair value hedge adjustments[1] $M | Accumulated balances in reserves[2] $M | Amounts reclassified from reserves to profit or (loss)[3] as: Hedged cash flows will no longer occur $M | Hedged item has affected profit or (loss) $M |
|---|---|---|---|---|---|
| **2021** | | | | | |
| **Interest rate risk** | | | | | |
| *Fair value hedge* | | | | | |
| Investment securities | 674 | - | n/a | n/a | n/a |
| *Cash flow hedge* | | | | | |
| Loans and advances | 24,368 | n/a | 296 | - | - |
| Deposits & Borrowings | 25,750 | n/a | (248) | - | - |
| **Interest rate and foreign exchange risk** | | | | | |
| *Fair value and cash flow hedge* | | | | | |
| Borrowings | 1,370 | 42 | (8) | - | - |
| **2020** | | | | | |
| **Interest rate risk** | | | | | |
| *Fair value hedge* | | | | | |
| Investment securities | 1,216 | - | n/a | n/a | n/a |
| *Cash flow hedge* | | | | | |
| Loans and advances | 23,849 | n/a | 652 | - | - |
| Deposits & Borrowings | 24,844 | n/a | (616) | - | - |
| **Interest rate and foreign exchange risk** | | | | | |
| *Fair value and cash flow hedge* | | | | | |
| Borrowings | 2,486 | 82 | (2) | - | - |

1 The accumulated amount of fair value hedge adjustments remaining on the statements of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is $nil (2020: $nil).

2 Balances presented in the table are gross of tax. There is $nil (2020: $nil) remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

3 Amounts reclassified from reserves to profit or loss for hedges that have been terminated are included as part of 'Other operating income' in the SOCI.

## Accounting policies

The Group applies hedge accounting to offset the effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

The International Accounting Standards Board is currently working on a project on dynamic risk management, which will impact hedge accounting for macro hedges. AASB 9 currently provides an option to continue to apply AASB 139 *Financial Instruments: Recognition and Measurement* (**AASB 139**) hedge accounting rules until this project is finalised. The Group continues to apply hedge accounting under AASB 139.

### Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability of cash flows that:

- is attributable to a particular risk associated with a recognised asset or liability (such as future interest payments on variable rate debt) or a highly probable forecast transaction; and
- could affect profit or loss.

Changes in the fair value associated with the effective portion of a hedging instrument designated as a cash flow hedge are recognised in OCI and accumulated in the hedging reserve within equity as the lesser of the cumulative fair value gain or loss on the hedging instrument and the cumulative change in fair value on the hedged item from the inception of the hedge. Ineffective portions are immediately recognised in the profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the hedge relationship is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the amounts accumulated in equity are released to profit or loss immediately. In other cases, the cumulative gain or loss previously recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

#### Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of:

– A recognised asset or liability;
– An unrecognised firm commitment; or
– An identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

Where an effective hedge relationship is established, fair value gains or losses on the hedging instrument are recognised in profit or loss. At the same time, changes in fair value of the hedged item attributable to the hedged risk are recognised as a gain or loss in the profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the hedge relationship is revoked, then hedge accounting is discontinued prospectively. The hedged item is accounted for under the effective interest method from that point and any accumulated adjustment to the carrying value of the hedged item from when it was effective is released to profit or loss over the period to when the hedged item will mature.

## 15. Financial instruments, master netting and transfer of financial assets

### 15.1 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 categorised by fair value hierarchy

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| Consolidated and Company | 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 | - | 1,579 | - | 1,579 | 435 | 1,025 | - | 1,460 |
| Investment securities | - | 4,538 | - | 4,538 | - | 4,814 | - | 4,814 |
| Derivatives | 1 | 309 | - | 310 | 1 | 690 | - | 691 |
| | 1 | 6,426 | - | 6,427 | 436 | 6,529 | - | 6,965 |
| **Financial liabilities** | | | | | | | | |
| Offshore commercial paper[1] | - | 1,763 | - | 1,763 | - | 1,498 | - | 1,498 |
| Derivatives | - | 272 | - | 272 | 1 | 533 | - | 534 |
| | - | 2,035 | - | 2,035 | 1 | 2,031 | - | 2,032 |

1 Designated as financial liabilities at FVTPL. Disclosed within the statements of financial position category of 'Borrowings'.

There have been no transfers between level 1 and level 2 and no transfers into or out of level 3 during the 2021 and 2020 financial years.

### Financial assets and liabilities not measured at fair value

The following table 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.

| | | | Fair value | | | |
|---|---|---|---|---|---|---|
| Consolidated | Note | Carrying value $M | Level 1 $M | Level 2 $M | Level 3 $M | Total $M |
| **2021** | | | | | | |
| **Financial assets** | | | | | | |
| Loans and advances | 7 | 57,324 | - | - | 57,341 | 57,341 |
| **Financial liabilities** | | | | | | |
| Deposits | 10 | 41,520 | - | 41,546 | - | 41,546 |
| Borrowings | 11 | 16,983 | - | 17,187 | - | 17,187 |
| Subordinated notes | 16 | 672 | - | 688 | - | 688 |
| **2020** | | | | | | |
| **Financial assets** | | | | | | |
| Loans and advances | 7 | 57,723 | - | - | 57,909 | 57,909 |
| **Financial liabilities** | | | | | | |
| Deposits | 10 | 39,947 | - | 40,011 | - | 40,011 |
| Borrowings | 11 | 18,631 | - | 18,765 | - | 18,765 |
| Subordinated notes | 16 | 672 | - | 650 | - | 650 |

| Company | Note | Carrying value $M | Fair value Level 1 $M | Level 2 $M | Level 3 $M | Total $M |
|---|---|---|---|---|---|---|
| 2021 | | | | | | |
| Financial assets | | | | | | |
| Loans and advances | 7 | 57,161 | - | - | 57,178 | 57,178 |
| Financial liabilities | | | | | | |
| Deposits | 10 | 41,700 | - | 41,727 | - | 41,727 |
| Borrowings | 11 | 14,818 | - | 14,998 | - | 14,998 |
| Subordinated notes | 16 | 672 | - | 688 | - | 688 |
| 2020 | | | | | | |
| Financial assets | | | | | | |
| Loans and advances | 7 | 57,563 | - | - | 57,747 | 57,747 |
| Financial liabilities | | | | | | |
| Deposits | 10 | 39,967 | - | 40,031 | - | 40,031 |
| Borrowings | 11 | 15,686 | - | 15,841 | - | 15,841 |
| Subordinated notes | 16 | 672 | - | 650 | - | 650 |

## Accounting Policies

### Financial assets

The carrying value of loans and advances is net of provisions for ECL. For variable rate loans, excluding impaired loans, the carrying amount is considered a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models to determine the net present value of the portfolio future principal and interest cash flows, based on the interest rate repricing of the loans. The discount rates applied are based on the rates offered by the Group on current products with similar maturity dates.

### Financial liabilities

The carrying value for non-interest-bearing, call and variable rate deposits, and fixed rate deposits repricing within six months of origination included in deposits is considered a reasonable estimate of their fair value. Discounted cash flow models are used to calculate the fair value of other term deposits included in deposits based upon deposit type and related maturities.

The fair value of borrowings and subordinated notes are calculated based on either the quoted market prices at reporting date or, where quoted market prices are not available, a discounted cash flow model using an observable yield curve appropriate to the remaining maturity of the instrument.

## 15.2 Master netting or similar arrangements

The following table sets out the effect of netting or similar arrangements (**netting**) of financial assets and financial liabilities that are offset in the statements of financial position (**SoFP**), or are subject to enforceable master netting arrangements, irrespective of whether they are offset in the SoFP.

| | Amounts subject to netting | | | | | |
|---|---|---|---|---|---|---|
| Consolidated and Company | Gross amounts[1] $M | Financial instruments $M | Financial collateral received/ pledged $M | Net exposure $M | Not subject to netting $M | Total SoFP amount $M |
| **2021** | | | | | | |
| **Financial assets** | | | | | | |
| Derivatives[2] | 294 | (214) | (62) | 18 | 16 | 310 |
| **Total** | 294 | (214) | (62) | 18 | 16 | 310 |
| **Financial liabilities** | | | | | | |
| Derivatives[2] | 270 | (214) | (56) | - | 2 | 272 |
| Repurchase agreements[4] | 4,430 | (4,430) | - | - | - | 4,430 |
| **Total** | 4,700 | (4,644) | (56) | - | 2 | 4,702 |
| **2020** | | | | | | |
| **Financial assets** | | | | | | |
| Derivatives[2] | 660 | (389) | (259) | 12 | 31 | 691 |
| Reverse repurchase agreements[3] | 50 | - | (50) | - | - | 50 |
| **Total** | 710 | (389) | (309) | 12 | 31 | 741 |
| Derivatives[2] | 533 | (389) | (142) | 2 | 1 | 534 |
| Repurchase agreements[4] | 1,917 | (1,917) | - | - | - | 1,917 |
| **Total** | 2,450 | (2,306) | (142) | 2 | 1 | 2,451 |

1 Gross amounts subject to netting are represented on the SoFP. No additional offsetting has been applied.

2 Certain derivatives are subject to the International Swaps and Derivative Association (**ISDA**) Master Agreement and other similar master netting arrangements. These arrangements contractually bind the Group and the counterparty to apply close out netting across all outstanding transactions only if either party defaults or other pre-agreed termination events occur. As such, they do not meet the criteria for offsetting in the SoFP. The cash collateral pledged or received is subject to the ISDA Credit Support Annex and other standard industry terms.

3 Reverse repurchase agreements with an original maturity of 90 days or less and are included as part of 'Cash and cash equivalents' in the SoFP. If original maturity is greater than 90 days, they are included in 'Loans and advances'. Details discussed in note 15.3.

4 Repurchase agreements are presented as part of 'Borrowings' in the SoFP.

## 15.3 Transfers of financial assets and collateral accepted as security for assets

Transferred financial assets continue to be recognised in the statements of financial position if the Group is deemed to have retained substantially all the risks and rewards associated with the financial assets transferred. This arises when the Group enters into repurchase agreements and conducts covered bond and securitisation programs.

### Repurchase agreements

The Group enters into repurchase agreements involving the sale of interest-bearing securities and simultaneously agrees to buy them back at a pre-agreed price on a future date. In the SoFP, the interest-bearing securities transferred continue to be recognised in 'Trading securities', 'Investment securities' and 'Loans and advances', because the Group retains the risks and rewards of ownership. The obligation to repurchase is included in 'Borrowings'.

### Reverse repurchase agreements

The Group enters into reverse repurchase agreements whereby interest-bearing securities are acquired and simultaneously agrees to sell them back at a pre-agreed price on a future date. In the statements of financial position, the securities acquired are not recognised because the Group does not acquire the risks and rewards of ownership. The amount receivable on resale is included in 'Cash and cash equivalents' if the original maturity is 90 days or less, otherwise 'Loans and advances' if the original maturity is greater than 90 days.

### Covered bonds

The Company conducts a covered bond program whereby it issues covered bonds guaranteed by the Covered Bond Guarantor that are secured over a covered pool of assets consisting of $2,248 million (2020: $3,184 million) of mortgages and cash at call. Eligible mortgages are sold by the Company to a special purpose trust, the Suncorp Covered Bond Trust, which guarantees the covered bonds. The Covered Bond Guarantor can take possession of the cover pool under certain events. In the event of default by the Company, the covered bond holders have claim against both the cover pool assets and the Company. The Company receives the residual income of the Suncorp Covered Bond Trust after all costs of the program have been met. In the statement of financial position, the eligible mortgages transferred are included in 'Loans and advances' and the covered bonds issued are included in 'Borrowings'.

### Term Funding Facility

The Group obtains funding through the facility by entering into repurchase agreements with the RBA. At 30 June 2021 the Group has drawn down $4,129 million (2020: $1,100 million) of the facility, with $nil (2020: $641 million) remaining undrawn (refer to note 11). Interest is charged at a fixed rate equivalent to the official cash rate at the time the respective portion of the facility is drawn down and is presented within interest expense (refer to note 4.1). The repurchase agreements entered into under the Term Funding Facility require the Group to pledge eligible collateral which includes self-securitised RMBS. As at 30 June 2021 $5,409 million of RMBS (2020: $1,435 million) were pledged as collateral. In the statement of financial position, the eligible collateral transferred is included in 'Loans and advances' (note 7).

### Securitisation programs

The Company conducts a mortgage securitisation program whereby residential mortgages are packaged and sold to special purpose securitisation trusts known as the Apollo Series Trusts (the **Trusts**). The Trusts fund their purchase of the mortgages by issuing floating-rate pass-through debt securities. The Group receives residual income from the Trusts after all payments to security holders and costs of the program have been met. The Group does not guarantee the capital value or the performance of the securities or the assets of the Trusts, and it does not guarantee the payment of interest or the repayment of principal due on the securities. The mortgages subject to the securitisation program have been pledged as security for the securities issued by the Trusts, and as such, the Group cannot use these assets to settle the liabilities of the Group. The Group is not obliged to support any losses that may be incurred by investors and does not intend to provide such support. In the consolidated statement of financial position, the mortgages transferred are included in 'Loans and advances' and the securitisation securities issued are included in 'Borrowings'.

The following table sets out the carrying amount of the transferred financial assets and the associated liabilities at the reporting date.

| Consolidated | 2021 Repurchase agreements $M | 2021 Covered bonds $M | 2021 Securitisation liabilities[1] $M | 2020 Repurchase agreements $M | 2020 Covered bonds $M | 2020 Securitisation liabilities $M |
|---|---|---|---|---|---|---|
| Carrying amount of transferred financial assets | 5,805 | 2,248 | 2,126 | 2,380 | 3,184 | 2,887 |
| Carrying amount of associated financial liabilities | 4,430 | 2,091 | 2,165 | 1,917 | 2,589 | 2,945 |
| *For those liabilities that have recourse only to the transferred assets:* | | | | | | |
| Fair value of transferred financial assets | n/a | n/a | 2,128 | n/a | n/a | 2,893 |
| Fair value of associated financial liabilities | n/a | n/a | 2,189 | n/a | n/a | 2,924 |
| **Net position** | | | (61) | | | (31) |

1 Securitisation liabilities of the Group comprise RMBS notes issued by the Apollo Series Trusts and are held by external investors. The carrying amount of transferred assets are included as part of 'Loans and advances' in the SoFP.

| Company | 2021 Repurchase agreements $M | 2021 Covered bonds $M | 2021 Securitisation liabilities[1] $M | 2020 Repurchase agreements $M | 2020 Covered bonds $M | 2020 Securitisation liabilities $M |
|---|---|---|---|---|---|---|
| Carrying amount of transferred financial assets | 5,805 | 2,248 | 13,720 | 2,380 | 3,184 | 14,595 |
| Carrying amount of associated financial liabilities | 4,430 | 2,091 | 14,265 | 1,917 | 2,589 | 15,045 |
| *For those liabilities that have recourse only to the transferred assets:* | | | | | | |
| Fair value of transferred financial assets | n/a | n/a | 13,738 | n/a | n/a | 14,635 |
| Fair value of associated financial liabilities | n/a | n/a | 13,959 | n/a | n/a | 14,693 |
| **Net position** | | | (221) | | | (58) |

1 Securitisation liabilities of the Company comprise borrowings from the Apollo Series Trusts, including those which issue only internally held notes for repurchase with central banks. The carrying amount of the internal transferred assets of $11,594 million (2020: $11,708 million) and external transferred assets of $2,126 million (2020: $2,887 million) are included as part of 'Loans and advances' in the SoFP. The carrying amount of associated liabilities is included as part of 'Due to related parties' in the SoFP.

# Capital structure

The Group's capital management strategy is to optimise shareholder value by managing the level, mix and use of capital resources. The primary objective is to ensure that there are sufficient capital resources to maintain and grow the business, in accordance with the Group's risk appetite.

The Company's share capital is denominated in Australian dollars. The Group is subject to, and complies with, external capital requirements set and monitored by APRA.

This section provides disclosures on the capital structure of the Group and how it finances its operations and growth using different sources of funds. Details of the Group's approach to capital risk management are disclosed in note 21.

## 16. Subordinated notes

The following table shows subordinated notes at amortised cost and categorised by type, class and instrument under APRA and Basel III reporting standards. These instruments have been issued by the Company.

| Consolidated and Company | 2021 $M | 2020 $M |
|---|---|---|
| Tier 2 Subordinated notes | | |
| *Basel III fully compliant subordinated notes* | | |
| $AUD 600 million Floating Rate Notes | 600 | 600 |
| **Total Basel III fully compliant subordinated notes** | 600 | 600 |
| *Basel III transitional subordinated notes* | | |
| $AUD 72 million Floating Rate Notes[1] | 72 | 72 |
| **Total Basel III transitional subordinated notes** | 72 | 72 |
| **Total Tier 2 Subordinated Notes[2]** | 672 | 672 |
| Current | 72 | - |
| Non-current | 600 | 672 |
| **Total subordinated notes** | 672 | 672 |

1 Tier 2 instruments subject to the transitional arrangements outlined in Australian Prudential Standard (APS) 111 *Capital Adequacy* Attachment L.

2 Total liability in relation to interest payment accrued for the Group to make payments under the subordinated notes as at the end of the financial year is $1 million (2020: $1 million). It is disclosed within the statements of financial position category of 'Payables and other liabilities'.

| Consolidated and Company | Margin above 90 day BBSW[1] | Maturity Date | Optional redemption date | Issue date | 2021 Number on issue | 2020 Number on issue |
|---|---|---|---|---|---|---|
| $AUD 600 million Floating Rate Notes | 215 bps | 5 Dec 2028 | 5 Dec 2023 | 22 Nov 2018 | 60,000 | 60,000 |
| $AUD 72 million Floating Rate Notes | 75 bps | n/a | n/a | 17 Dec 1998 | 715,383 | 715,383 |

1 Bank Bill Swap Rate (BBSW).

### Basel III fully compliant subordinated notes

The subordinated notes pay quarterly, cumulative deferrable interest payments at a floating rate equal to the sum of the 90 day BBSW and the margin.

The issuer has the option to redeem the instruments on the optional redemption date and for certain tax and regulatory events (in each case subject to APRA's prior written approval).

If APRA determines that a non-viability event has occurred in relation to the Company and, where relevant its parent, all (or in some circumstances, some) of the subordinated notes will be immediately converted into the Company's ordinary shares (or, if conversion cannot be effected for any reason within five business days, written off).

The rights of the holder rank in preference to the rights of the Company's shareholders, and capital notes holders and rank equally against all other subordinated note holders.

### Basel III transitional subordinated notes

On 4 May 2021, the Company elected to redeem all of the perpetual cumulative non-convertible notes with a floating rate coupon issued on 17 December 1998. The subordinated notes were redeemed on the early redemption date of 28 July 2021. Each note holder received the face value ($100 per note) together with all unpaid accrued interest. There was no gain or loss recognised by the Company on redemption.

## 17. Share capital

| | 2021 | | 2020 | |
|---|---|---|---|---|
| **Consolidated and Company** | **No of shares** | **$M** | **No of shares** | **$M** |
| Balance at the beginning of the financial year | 282,147,584 | 2,754 | 271,467,584 | 2,648 |
| Share issues | - | - | 10,680,000 | 106 |
| **Balance at the end of the financial year** | 282,147,584 | 2,754 | 282,147,584 | 2,754 |

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of the winding-up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds on liquidation.

## 18. Capital notes

The following table shows capital notes at cost and categorised by type, class and instrument under APRA and Basel III reporting standards. These instruments have been issued by the Company.

| | | 2021 | | 2020 | |
|---|---|---|---|---|---|
| **Consolidated and Company** | **Margin above 90 day BBSW** | **Number on issue** | **$M** | **Number on issue** | **$M** |
| Issued on 5 May 2017 | 410 bps | 3,750,000 | 375 | 3,750,000 | 375 |
| Issued on 18 December 2017 | 365 bps | 1,750,000 | 175 | 1,750,000 | 175 |
| Issued on 27 May 2019 | 365 bps | 350,000 | 35 | 350,000 | 35 |
| **Balance at the end of the financial year** | | 5,850,000 | 585 | 5,850,000 | 585 |

| | Cents per note | $000 | Cents per note | $000 |
|---|---|---|---|---|
| **Dividend payments on capital notes** | | | | |
| *Issued on 5 May 2017* | | | | |
| September quarter | 74 | 2,779 | 95 | 3,573 |
| December quarter | 73 | 2,742 | 90 | 3,362 |
| March quarter | 71 | 2,663 | 87 | 3,273 |
| June quarter | 73 | 2,736 | 82 | 3,090 |
| *Issued on 18 December 2017* | | | | |
| September quarter | 66 | 1,158 | 87 | 1,528 |
| December quarter | 65 | 1,142 | 82 | 1,431 |
| March quarter | 63 | 1,107 | 79 | 1,390 |
| June quarter | 65 | 1,138 | 74 | 1,303 |
| *Issued on 27 May 2019* | | | | |
| September quarter | 66 | 232 | 87 | 306 |
| December quarter | 65 | 228 | 82 | 286 |
| March quarter | 63 | 221 | 79 | 278 |
| June quarter | 65 | 228 | 74 | 261 |
| **Total dividend payments on capital notes** | | 16,374 | | 20,081 |

Capital notes are eligible Additional Tier 1 capital instruments under Basel III. They are fully paid, perpetual, subordinated, unsecured securities and issued to SGL.

Capital notes pay a distribution that are floating rate, discretionary, non-cumulative, and scheduled to be paid quarterly, at the Company's discretion. They are calculated based on the sum of the 90 day BBSW and the margin, adjusted for the corporate tax rate applicable to the ultimate parent entity. If APRA determines that a non-viability event has occurred in relation to the Company, all (or in some circumstances, some) of the instruments will be written off.

In the event of the winding up of the Company, the rights of the holders will rank equally to other capital note holders, and in priority to the rights of the ordinary shareholders only.

## 19. Reserves

| Consolidated | Equity reserve for credit losses $M | Hedging reserve $M | FVOCI reserve $M | Common control reserve $M | Total reserves $M |
|---|---|---|---|---|---|
| **Balance as at 1 July 2019** | 104 | (6) | 15 | (372) | (259) |
| Transfer (to) from retained profits | (23) | - | - | - | (23) |
| Net change in fair value of financial instrument | - | 43 | (9) | - | 34 |
| Income tax (expense) benefit | - | (13) | 3 | - | (10) |
| **Balance as at 30 June 2020** | 81 | 24 | 9 | (372) | (258) |
| Transfer (to) from retained profits | 4 | - | - | - | 4 |
| Net change in fair value of financial instrument | - | 6 | 23 | - | 29 |
| Income tax (expense) benefit | - | (2) | (7) | - | (9) |
| **Balance as at 30 June 2021** | 85 | 28 | 25 | (372) | (234) |

| Company | Equity reserve for credit losses $M | Hedging reserve $M | FVOCI reserve $M | Common control reserve $M | Total reserves $M |
|---|---|---|---|---|---|
| **Balance as at 1 July 2019** | 104 | (6) | 15 | - | 113 |
| Transfer (to) from retained profits | (23) | - | - | - | (23) |
| Net change in fair value of financial instrument | - | 43 | (9) | - | 34 |
| Income tax (expense) benefit | - | (13) | 3 | - | (10) |
| **Balance as at 30 June 2020** | 81 | 24 | 9 | - | 114 |
| Transfer (to) from retained profits | 4 | - | - | - | 4 |
| Net change in fair value of financial instrument | - | 6 | 23 | - | 29 |
| Income tax (expense) benefit | - | (2) | (7) | - | (9) |
| **Balance as at 30 June 2021** | 85 | 28 | 25 | - | 138 |

### Equity reserve for credit losses

The equity reserve for credit losses represents the difference between the estimate of credit losses over the full life of all exposures and the Group's collective provisions for impairment, consistent with the requirements of APS 220 *Credit Quality*.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

### Fair value through other comprehensive income reserve

The FVOCI reserve represents the cumulative net change in the fair value of financial assets classified as FVOCI until the asset is derecognised or impaired.

### Common control reserve

The common control reserve represents the balance of the loss on disposal of subsidiaries following the Suncorp Group restructure on 7 January 2011.

## 20. Dividends

| | | 2021 | | 2020 | |
|---|---|---|---|---|---|
| Consolidated and Company | Note | Cents per share | $M | Cents per share | $M |
| **Dividend payments on ordinary shares** | | | | | |
| 2020 final dividend (2020: 2019 final dividend) | | - | - | 58 | 164 |
| 2021 interim dividend (2020: 2020 interim dividend) | | 61 | 171 | 56 | 158 |
| **Total dividends on ordinary shares** | | | 171 | | 322 |
| **Total dividends on capital notes** | 18 | | 16 | | 20 |
| **Total dividends** | | | 187 | | 342 |
| **Dividends not recognised in the statements of financial position** | | | | | |
| *Dividends determined since reporting date* | | | | | |
| 2021 final dividend[1] (2020: 2020 final dividend[2]) | | 77 | 216 | - | - |
| | | | 216 | | - |

1 The cents per share for the 2021 final dividend determined but not recognised in the statements of financial position was estimated based on the total number of ordinary shares on issue as at 30 June 2021. The actual amount recognised in the financial statements for the year ending 30 June 2022 will be based on the actual number of ordinary shares on issue on the record date.

2 In line with the updated capital management and dividend guidance issued by APRA on 29 July 2020, the directors determined that a 2020 final dividend would not be paid.

### Accounting policies

Dividends on ordinary shares are provided for in the consolidated financial statements once determined, accordingly, the final dividend announced for the current financial year is provided for and paid in the following financial year.

## 21. Group capital management

As the Company and the Group are entities within the Suncorp Group, they follow the capital management strategy of the Suncorp Group. The capital management strategy of the Suncorp Group is to optimise shareholder value by managing the level, mix and use of capital resources. The primary objective is to ensure that there are sufficient capital resources to protect depositors and funding providers and grow the business, in accordance with the Suncorp Group's risk appetite. The Suncorp Group's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Suncorp Group as a whole, and each regulated entity, is capitalised to meet internal and external requirements. The Suncorp Group is subject to, and in compliance with, externally imposed capital requirements set and monitored by APRA.

The ICAAP is reviewed regularly and, where appropriate, adjustments are made to reflect changes in the capital needs and risk profile of the Suncorp Group. Capital targets are structured according to risk appetite, the regulatory framework and to APRA's standards for the supervision of conglomerates.

The Company is an ADI and the Company, and its subsidiaries are subject to APS which include capital adequacy requirements.

The Group's capital base is expected to be adequate for its size, business mix, complexity and the risk profile of its business and therefore applies a risk-based approach to capital adequacy.

The Group uses the standardised framework for calculating risk weighted assets (**RWA**) which is calculated using credit risk, market risk and operational risk in accordance with APS 110 *Capital Adequacy*.

This RWA is compared with the Common Equity Tier 1, Tier 1 and Total Capital held in the Group to determine the capital adequacy ratios. The capital position and RWA as at the end of the financial year are included in note 21.1. The Group satisfied all externally imposed capital requirements which it is subject to during the current financial year and the prior financial year.

The Group's Basel III APS 330 capital disclosures are made available at the regulatory disclosures section www.suncorpgroup.com.au/investors/reports.

## 21.1 Capital adequacy

The following table summarises the capital position at the end of the financial year.

| | 2021 $M | 2020 $M |
|---|---|---|
| **Tier 1 Capital** | | |
| **Common Equity Tier 1 Capital** | | |
| Ordinary share capital | 2,754 | 2,754 |
| Retained profits | 829 | 615 |
| Accumulated OCI | 53 | 33 |
| | 3,636 | 3,402 |
| **Regulatory adjustments to Common Equity Tier 1 Capital** | | |
| Goodwill | (21) | (21) |
| Cash-flow hedge reserve | (28) | (24) |
| Deferred tax assets | (61) | (87) |
| Capitalised expenses | (176) | (184) |
| Other regulatory adjustments | (1) | (1) |
| | (287) | (317) |
| **Common Equity Tier 1 Capital** | 3,349 | 3,085 |
| **Additional Tier 1 Capital** | | |
| Eligible hybrid capital | 585 | 585 |
| **Total Tier 1 Capital** | 3,934 | 3,670 |
| **Tier 2 Capital** | | |
| APRA general reserve for credit losses | 199 | 226 |
| Eligible hybrid capital | 600 | 600 |
| Ineligible hybrid capital[1] | 19 | 38 |
| **Total Tier 2 Capital** | 818 | 864 |
| **Total Capital** | 4,752 | 4,534 |
| **Total assessed risk weighted assets** | 33,284 | 33,107 |
| **Risk weighted capital ratios** | % | % |
| Common Equity Tier 1 | 10.06 | 9.32 |
| Total Tier 1 | 11.82 | 11.09 |
| Total Tier 2 | 2.46 | 2.61 |
| **Total risk weighted capital ratio** | 14.28 | 13.70 |

1 Tier 2 instruments subject to the transitional arrangements outlined in APS 111 Capital Adequacy Attachment L. The Tier 2 instruments have been redeemed on 28 July 2021 (refer to note 16).

The following table summarises the RWA at the end of the financial year.

| | Carrying amount 2021 $M | Carrying amount 2020 $M | Risk weighted balance 2021 $M | Risk weighted balance 2020 $M |
|---|---|---|---|---|
| On-balance sheet assets | | | | |
| Cash items | 1,495 | 507 | 19 | 18 |
| Claims on Australian and foreign governments | 3,359 | 3,043 | - | - |
| Claims on central banks, international banking agencies, regional developments banks, ADIs and overseas banks | 574 | 928 | 207 | 360 |
| Claims on securitisation exposures | 741 | 1,049 | 147 | 209 |
| Claims secured against eligible residential mortgages | 44,658 | 44,068 | 16,434 | 16,123 |
| Past due claims | 689 | 719 | 629 | 638 |
| Other retail assets | 1,411 | 402 | 1,403 | 398 |
| Corporate | 8,435 | 9,666 | 8,430 | 9,663 |
| Other assets and claims | 266 | 281 | 266 | 280 |
| Total banking assets | 61,628 | 60,663 | 27,535 | 27,689 |

| | Notional amount 2021 $M | Credit equivalent 2021 $M | Risk weighted balance 2021 $M | Risk weighted balance 2020 $M |
|---|---|---|---|---|
| Off-balance sheet positions | | | | |
| Guarantees | 292 | 292 | 287 | 324 |
| Commitments to provide loans and advances | 10,247 | 2,889 | 1,572 | 1,166 |
| Foreign exchange contracts | 3,439 | 52 | 24 | 45 |
| Interest rate contracts | 44,557 | 91 | 39 | 55 |
| Securitisation exposures | 2,202 | 91 | 18 | 29 |
| CVA capital charge | - | - | 74 | 134 |
| Total off-balance sheet positions | 60,737 | 3,415 | 2,014 | 1,753 |
| | | | | |
| Market risk capital charge | | | 100 | 93 |
| Operational risk capital charge | | | 3,635 | 3,572 |
| Total off-balance sheet positions | | | 2,014 | 1,753 |
| Total on-balance sheet credit risk weighted assets | | | 27,535 | 27,689 |
| Total assessed risk | | | 33,284 | 33,107 |

# Risk management

The Group applies a consistent and integrated approach to enterprise risk management (ERM).

The Group recognises that a strong risk culture, good governance and effective risk management are essential to achieving the Group's strategy and business plan and maintaining the Group's social licence to operate. The Group has systems, policies, processes and people in place to identify, measure, analyse, monitor, report and control or mitigate internal and external sources of material risk.

## 22. Risk management

As the Company and its subsidiaries are entities within the Suncorp Group, the Group follows the Suncorp Group risk management objectives and structure as described below.

The material risks addressed by Suncorp's Enterprise Risk Management Framework (**ERMF**) are defined below.

| Material risks | Definition |
|---|---|
| Strategic risk | Suncorp recognises and defines two types of strategic-level risk:<br>Strategic risk – risks to the viability of Suncorp's business model resulting from adverse changes in the external business environment, with respect to the economy, political landscape, regulation, technology, climate change, customer and social expectations and competitors. Detailed climate change disclosures are included on page 54 of the Suncorp Group Annual Report which is available at www.suncorpgroup.com.au/investors/reports.<br>Strategic execution risk – the risk of failing to achieve strategic business objectives or execution of the business strategy. |
| Financial risk | Financial risks include Credit, Counterparty and Contagion risk, Market/Investment risk, Liquidity risk and Asset and Liability Management (**ALM**) risk.<br>Credit risk is the risk of default of an obligor to fully meet its obligations in accordance with agreed terms.<br>Counterparty risk is the risk that the other party in an agreement will default/will not meet its contractual obligations in accordance with agreed terms. Contagion risk is the risk that problems impacting one entity within a group may compromise the financial position of other entities within that group.<br>Market/Investment risk is the risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, duration, commodity prices, and market volatilities.<br>Liquidity risk is the risk that Suncorp will be unable to service its cash flow obligations today or in the future.<br>ALM risk is the risk of adverse movements in the relative value of assets and liabilities due to changes in market factors (e.g. Interest Rates, Inflation, Foreign Exchange), the variation in repricing profiles or from the different characteristics of the assets and liabilities. |
| Operational risk | The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes compliance and legal risk. |

The Group is exposed to the following categories of market risk:

| Categories of market risk | Definition |
|---|---|
| Foreign exchange risk | The risk of an asset or liability's value changing unfavourably due to changes in currency exchange rates. |
| Interest rate risk | The risk of loss of current and future earnings and unfavourable movements in the value of interest-bearing assets and liabilities from changes in interest rates. |
| Credit spread risk | Credit spread is the difference in yield due to difference in credit quality. This is the risk of loss of current and future earnings and unfavourable movement in the value of investments from changes in the credit spread as determined by capital market sentiment or factors affecting all issuers in the market and not necessarily due to factors specific to an individual issuer. |

Further discussions on the application of the Group's risk management practices are presented in note 14 Derivative financial instruments; and note 23 Credit risk, liquidity risk and market risk.

# 23. Credit risk, liquidity risk and market risk

## 23.1 Credit risk

### (a) Credit risk exposures

The Group is exposed to credit risk from conventional lending to customers and receivables from inter-bank, treasury, international trade and capital market activities.

Credit risk is managed on a structured basis with approval decisions being taken within credit approval authorities delegated by the Board. The setting and maintenance of detailed credit policies and standards is undertaken within an independent function under the responsibility of the Chief Risk Officer, Banking & Wealth. The Chief Executive Officer, Banking & Wealth is accountable for exercising delegated credit authority for credit decisions and delivering delegated credit authorities for the completion of first line of defence credit activities, in accordance with Board delegated authorities and credit policies and standards. The management of Business Banking troublesome and impaired assets is the responsibility of the Business Customer Support team within the Chief Risk Office, with the Chief Executive Officer, Banking & Wealth having accountability for these activities.

#### Credit risk on loans and advances

Credit risk involves a wide spectrum of customers ranging from individuals to large institutions and as such credit risk management is divided into two distinct categories: a statistically-managed portfolio and a risk-graded portfolio.

The statistically-managed portfolio covers consumer business (consumer loans, housing loans and small business loans) and automated credit scoring is widely used to determine customer creditworthiness. Credit scoring is embedded within the Group's end-to-end automated workflow system that also enforces credit policies and certain business rules. These exposures are generally not reviewed individually unless arrears occur when all collections and recovery actions are managed by a centralised team.

The risk-graded portfolio includes commercial, agribusiness, property investment and property development finance exposures. Within these portfolios, exposures are individually assessed and an internal risk grade is assigned depending on the discrete analysis of each customer or group of related customers' risk profile. Exposures within this portfolio are subject to annual review or more frequent review, if deemed necessary, including a reassessment of the assigned internal risk grade. In the event of default, collections and recovery activity is managed within a well-defined structure. This process involves initial follow-up by the relationship manager including regular performance monitoring, reporting and if required, transfer to the Business Customer Support team.

A Portfolio Quality Review team within the Banking & Wealth Chief Risk Office is in place to review the acceptance and management of credit risk in accordance with the approved enterprise risk management framework.

#### Credit risk on derivative financial instruments

The Group manages its exposures to potential credit losses on over-the-counter (OTC) derivative contracts through central clearing and by entering into netting arrangements with its derivative counterparties (refer to note 15.2).

The fair value of derivatives recognised in the statements of financial position represent the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 14.

### Credit risk by gross credit exposure

The tables below detail the Group's exposure to credit risk from its financial assets and credit commitments as at the reporting date. No adjustments are made for any collateral held or credit enhancements.

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| Consolidated | Loans and advances $M | Credit commitments[1] $M | Total risk $M | Loans and advances $M | Credit commitments[1] $M | Total risk $M |
| Agribusiness | 4,228 | 209 | 4,437 | 4,081 | 255 | 4,336 |
| Construction | 728 | 269 | 997 | 789 | 221 | 1,010 |
| Financial services | 105 | 257 | 362 | 90 | 239 | 329 |
| Hospitality | 869 | 52 | 921 | 913 | 56 | 969 |
| Manufacturing | 228 | 18 | 246 | 279 | 20 | 299 |
| Professional services | 335 | 26 | 361 | 328 | 18 | 346 |
| Property investment | 3,110 | 100 | 3,210 | 2,944 | 163 | 3,107 |
| Real estate - Mortgages | 46,062 | 2,072 | 48,134 | 46,474 | 993 | 47,467 |
| Consumer loans | 122 | - | 122 | 155 | - | 155 |
| Other commercial and industrial | 1,776 | 178 | 1,954 | 1,971 | 183 | 2,154 |
| **Gross credit risk** | 57,563 | 3,181 | 60,744 | 58,024 | 2,148 | 60,172 |
| Impairment provisions | (239) | - | (239) | (301) | - | (301) |
| **Total credit risk** | 57,324 | 3,181 | 60,505 | 57,723 | 2,148 | 59,871 |

1 Credit commitments represent the credit equivalent amount of Group's off-balance sheet exposures calculated in accordance with APS 112 *Capital Adequacy: Standardised Approach to Credit Risk.*

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| Company | Loans and advances $M | Credit commitments[1] $M | Total risk $M | Loans and advances $M | Credit commitments[1] $M | Total risk $M |
| 2021 | | | | | | |
| Agribusiness | 4,139 | 209 | 4,348 | 3,999 | 255 | 4,254 |
| Construction | 708 | 269 | 977 | 767 | 221 | 988 |
| Financial services | 105 | 294 | 399 | 89 | 291 | 380 |
| Hospitality | 867 | 52 | 919 | 910 | 56 | 966 |
| Manufacturing | 217 | 18 | 235 | 266 | 20 | 286 |
| Professional services | 329 | 26 | 355 | 321 | 18 | 339 |
| Property investment | 3,109 | 100 | 3,209 | 2,943 | 163 | 3,106 |
| Real estate - Mortgages | 46,062 | 2,072 | 48,134 | 46,474 | 993 | 47,467 |
| Consumer loans | 122 | - | 122 | 155 | - | 155 |
| Other commercial and industrial | 1,734 | 178 | 1,912 | 1,930 | 183 | 2,113 |
| **Gross credit risk** | 57,392 | 3,218 | 60,610 | 57,854 | 2,200 | 60,054 |
| Impairment provisions | (231) | - | (231) | (291) | - | (291) |
| **Total credit risk** | 57,161 | 3,218 | 60,379 | 57,563 | 2,200 | 59,763 |

1 Credit commitments represent the credit equivalent amount of Company's off-balance sheet exposures calculated in accordance with APS 112 *Capital Adequacy: Standardised Approach to Credit Risk.*

| Consolidated and Company | Receivables due from other banks $M | Trading Securities $M | Investment Securities $M | Derivatives $M | Total risk $M |
|---|---|---|---|---|---|
| 2021 | | | | | |
| Financial services | 1,495 | - | 1,228 | 310 | 3,033 |
| Government and public authorities | - | 1,579 | 3,310 | - | 4,889 |
| **Total credit risk** | 1,495 | 1,579 | 4,538 | 310 | 7,922 |
| 2020 | | | | | |
| Financial services | 567 | - | 1,720 | 691 | 2,978 |
| Government and public authorities | - | 1,460 | 3,094 | - | 4,554 |
| **Total credit risk** | 567 | 1,460 | 4,814 | 691 | 7,532 |

The tables below detail the Group's exposure to credit risk by credit quality of the loans and advances.

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| Consolidated | Impaired assets $M | Past due loans > 90 days[1] $M | Remaining assets[2] $M | Total risk $M | Impaired assets $M | Past due loans > 90 days[1] $M | Remaining assets[2] $M | Total risk $M |
| Agribusiness | 25 | 32 | 4,380 | 4,437 | 38 | 49 | 4,249 | 4,336 |
| Construction | 2 | 3 | 992 | 997 | 3 | 4 | 1,003 | 1,010 |
| Financial services | - | - | 3,395 | 3,395 | - | - | 3,307 | 3,307 |
| Hospitality | 68 | - | 853 | 921 | 29 | 14 | 926 | 969 |
| Manufacturing | 3 | 1 | 242 | 246 | 3 | 6 | 290 | 299 |
| Professional services | 1 | 3 | 357 | 361 | 1 | 4 | 341 | 346 |
| Property investment | 9 | 19 | 3,182 | 3,210 | 16 | 7 | 3,084 | 3,107 |
| Real estate - Mortgages | 47 | 470 | 47,617 | 48,134 | 60 | 489 | 46,918 | 47,467 |
| Consumer loans | - | 4 | 118 | 122 | - | 4 | 151 | 155 |
| Government and public authorities | - | - | 4,889 | 4,889 | - | - | 4,554 | 4,554 |
| Other commercial and industrial | 25 | 18 | 1,911 | 1,954 | 20 | 17 | 2,117 | 2,154 |
| **Gross credit risk** | 180 | 550 | 67,936 | 68,666 | 170 | 594 | 66,940 | 67,704 |
| Impairment provisions | (59) | (36) | (144) | (239) | (60) | (38) | (203) | (301) |
| **Total credit risk** | 121 | 514 | 67,792 | 68,427 | 110 | 556 | 66,737 | 67,403 |

1 Loans which are overdue under the contractual terms by 90 days or more. The amount represents the entire contractual balance not just the overdue portion.

2 Remaining assets are all loans that are not impaired or past due.

| Company | 2021 Impaired assets $M | 2021 Past due loans > 90 days[1] $M | 2021 Remaining assets[2] $M | 2021 Total risk $M | 2020 Impaired assets $M | 2020 Past due loans > 90 days[1] $M | 2020 Remaining assets[2] $M | 2020 Total risk $M |
|---|---|---|---|---|---|---|---|---|
| Agribusiness | 25 | 32 | 4,291 | 4,348 | 37 | 48 | 4,169 | 4,254 |
| Construction | 2 | 3 | 972 | 977 | 3 | 4 | 981 | 988 |
| Financial services | - | - | 3,432 | 3,432 | - | - | 3,358 | 3,358 |
| Hospitality | 67 | - | 852 | 919 | 29 | 14 | 923 | 966 |
| Manufacturing | 3 | 1 | 231 | 235 | 3 | 6 | 277 | 286 |
| Professional services | 1 | 3 | 351 | 355 | 1 | 4 | 334 | 339 |
| Property investment | 9 | 19 | 3,181 | 3,209 | 16 | 7 | 3,083 | 3,106 |
| Real estate - Mortgages | 47 | 470 | 47,617 | 48,134 | 60 | 489 | 46,918 | 47,467 |
| Consumer loans | - | 4 | 118 | 122 | - | 4 | 151 | 155 |
| Government and public authorities | - | - | 4,889 | 4,889 | - | - | 4,554 | 4,554 |
| Other commercial and industrial | 25 | 18 | 1,869 | 1,912 | 20 | 17 | 2,076 | 2,113 |
| **Total gross credit risk** | 179 | 550 | 67,803 | 68,532 | 169 | 593 | 66,824 | 67,586 |
| Impairment provisions | (59) | (36) | (136) | (231) | (60) | (36) | (195) | (291) |
| **Total credit risk** | 120 | 514 | 67,667 | 68,301 | 109 | 557 | 66,629 | 67,295 |

1 Loans which are overdue under the contractual terms by 90 days or more. The amount represents the entire contractual balance not just the overdue portion.

2 Remaining assets are all loans that are not impaired or past due.

### (b) Credit quality

The following table provides information regarding the credit quality of loans and advances including restructured loans.

| | Consolidated 2021 $M | Consolidated 2020 $M | Company 2021 $M | Company 2020 $M |
|---|---|---|---|---|
| *Performing loans[1]* | | | | |
| Loans and advances | 56,811 | 57,234 | 56,641 | 57,066 |
| Provision for impairment | (144) | (203) | (136) | (195) |
| | 56,667 | 57,031 | 56,505 | 56,871 |
| *Non-performing loans – not impaired* | | | | |
| Non-performing loans – not impaired[2] | 550 | 594 | 550 | 593 |
| Loans and advances with restructured terms[3] | 22 | 26 | 22 | 26 |
| Provision for impairment | (36) | (38) | (36) | (36) |
| | 536 | 582 | 536 | 583 |
| *Non-performing loans – impaired* | | | | |
| Gross impaired loans[4] | 180 | 170 | 179 | 169 |
| Provision for impairment | (59) | (60) | (59) | (60) |
| | 121 | 110 | 120 | 109 |
| **Total loans and advances** | 57,324 | 57,723 | 57,161 | 57,563 |

1 Loans that are not impaired and not past due by more than 90 days.

2 Loans that are past due for greater than 90 days where the Group considers that principal and interest plus any associated costs will be recovered in full.

3 Loan facilities whereby the original contractual terms have been modified in a manner that would not be commercially available to other customers in good standing due to the financial difficulties or hardship of the customer. For example, a reduction in principal, interest or other repayments due or an extended maturity date for repayment.

4 Loans classified as impaired, as doubt exists that the full amount of principal and interest will be collected in a timely manner in compliance with agreed terms.

Refer to note 7 for further information relating to the Group's treatment of loans and advances that were subject to a COVID-19 financial assistance package and which, aligned with industry and APRA, expired 31 March 2021.

Financial assets that are performing loans can be assessed by reference to the Group's internal credit grade rating scale and are segmented into Strong, Satisfactory and Weak categories. Credit quality is internally assessed using the Group's credit rating system to determine each customer's PD and the associated internal risk rating grade. The rating grades can be aligned to the Standard & Poor's (S&P) ratings categories to enable wider comparisons. Internal credit rating assessments reflect arrears status, are tailored to the Group's significant customer segments and are undertaken in accordance with Credit Policy and Lending Guidelines.

The analysis below represents the current credit quality of loans and advances. Refer to note 8.2 for the explanation of each stage.

| | 2021 | | | | | 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | | | Stage 1 | Stage 2 | Stage 3 | | |
| Consolidated | ECL $M | ECL $M | ECL $M | SP $M | Total $M | ECL $M | ECL $M | ECL $M | SP $M | Total $M |
| *Statistically-managed portfolio* | | | | | | | | | | |
| Strong[1] | 46,219 | - | - | - | 46,219 | 44,996 | - | - | - | 44,996 |
| Satisfactory[2] | 798 | 381 | - | - | 1,179 | 2,360 | 448 | - | - | 2,808 |
| Weak[3] | - | 407 | 491 | - | 898 | - | 450 | 548 | - | 998 |
| Impaired | - | - | 21 | 35 | 56 | - | - | 36 | 32 | 68 |
| *Risk-graded portfolio* | | | | | | | | | | |
| Strong[1] | 4,009 | - | - | - | 4,009 | 3,715 | - | - | - | 3,715 |
| Satisfactory[2] | 4,040 | 459 | - | - | 4,499 | 4,005 | 694 | - | - | 4,699 |
| Weak[3] | - | 407 | 172 | - | 579 | - | 431 | 207 | - | 638 |
| Impaired | - | - | 28 | 96 | 124 | - | - | 2 | 100 | 102 |
| Gross carrying amount | 55,066 | 1,654 | 712 | 131 | 57,563 | 55,076 | 2,023 | 793 | 132 | 58,024 |
| Provision for impairment | (93) | (50) | (52) | (44) | (239) | (124) | (74) | (57) | (46) | (301) |
| **Net carrying amount** | 54,973 | 1,604 | 660 | 87 | 57,324 | 54,952 | 1,949 | 736 | 86 | 57,723 |

1 Strong: PD aligns to S&P's rating AAA to BB.
2 Satisfactory: PD aligns to S&P's rating BB- to B.
3 Weak: PD aligns to S&P's rating B- to C.

| Company | 2021 Stage 1 ECL $M | 2021 Stage 2 ECL $M | 2021 Stage 3 ECL $M | 2021 Stage 3 SP $M | 2021 Total $M | 2020 Stage 1 ECL $M | 2020 Stage 2 ECL $M | 2020 Stage 3 ECL $M | 2020 Stage 3 SP $M | 2020 Total $M |
|---|---|---|---|---|---|---|---|---|---|---|
| *Statistically-managed portfolio* | | | | | | | | | | |
| Strong[1] | 46,186 | - | - | - | 46,186 | 44,956 | - | - | - | 44,956 |
| Satisfactory[2] | 799 | 382 | - | - | 1,181 | 2,358 | 448 | - | - | 2,806 |
| Weak[3] | - | 408 | 491 | - | 899 | - | 450 | 548 | - | 998 |
| Impaired | - | - | 21 | 34 | 55 | - | - | 36 | 32 | 68 |
| *Risk-graded portfolio* | | | | | | | | | | |
| Strong[1] | 3,942 | - | - | - | 3,942 | 3,653 | - | - | - | 3,653 |
| Satisfactory[2] | 3,982 | 452 | - | - | 4,434 | 3,954 | 687 | - | - | 4,641 |
| Weak[3] | - | 400 | 171 | - | 571 | - | 425 | 207 | - | 632 |
| Impaired | - | - | 28 | 96 | 124 | - | - | - | 100 | 100 |
| Gross carrying amount | 54,909 | 1,642 | 711 | 130 | 57,392 | 54,921 | 2,010 | 791 | 132 | 57,854 |
| Provision for impairment | (88) | (48) | (51) | (44) | (231) | (117) | (72) | (56) | (46) | (291) |
| Net carrying amount | 54,821 | 1,594 | 660 | 86 | 57,161 | 54,804 | 1,938 | 735 | 86 | 57,563 |

1 Strong: PD aligns to S&P's rating AAA to BB.
2 Satisfactory: PD aligns to S&P's rating BB- to B.
3 Weak: PD aligns to S&P's rating B- to C.

Ageing of past due but not impaired financial assets is used by the Group to measure and manage emerging credit risks. A summary of the ageing of past due but not impaired loans and advances is noted below. The balances of financial assets other than loans and advances are all neither past due nor impaired.

| Consolidated | Past due but not impaired 1-29 days $M | 30-59 days $M | 60-89 days $M | 90-179 days $M | >= 180 days $M | Total $M |
|---|---|---|---|---|---|---|
| **2021** | | | | | | |
| *Loans and advances* | | | | | | |
| Retail banking | 424 | 130 | 115 | 206 | 268 | 1,143 |
| Business banking | 40 | 17 | 8 | 22 | 54 | 141 |
| | 464 | 147 | 123 | 228 | 322 | 1,284 |
| **2020** | | | | | | |
| *Loans and advances* | | | | | | |
| Retail banking | 416 | 125 | 101 | 183 | 310 | 1,135 |
| Business banking | 42 | 115 | 45 | 51 | 50 | 303 |
| | 458 | 240 | 146 | 234 | 360 | 1,438 |

| Company | Past due but not impaired 1-29 days $M | 30-59 days $M | 60-89 days $M | 90-179 days $M | >= 180 days $M | Total $M |
|---|---|---|---|---|---|---|
| **2021** | | | | | | |
| *Loans and advances* | | | | | | |
| Retail banking | 424 | 130 | 115 | 206 | 268 | 1,143 |
| Business banking | 40 | 17 | 8 | 22 | 54 | 141 |
| | 464 | 147 | 123 | 228 | 322 | 1,284 |
| **2020** | | | | | | |
| *Loans and advances* | | | | | | |
| Retail banking | 416 | 125 | 101 | 183 | 310 | 1,135 |
| Business banking | 42 | 115 | 45 | 51 | 49 | 302 |
| | 458 | 240 | 146 | 234 | 359 | 1,437 |

### (c) Collateral management

Collateral is used to mitigate credit risk as the secondary source of repayment in the event the counterparty cannot meet their contractual repayment commitments. The Group evaluates each customer's creditworthiness on a case-by-case basis. The extent of collateral value secured, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty.

More than 80.2 per cent (2020: 80.4 per cent) of the Group's lending is classified as consumer and 99.7 per cent (2020: 99.7 per cent) of that lending is secured by residential property. Residential Lenders Mortgage Insurance is generally required for residential mortgages with a loan-to-value ratio at origination of more than 80% per cent to cover any shortfall in outstanding loan principal and accrued interest. The financial effect of these measures is that remaining credit risk on residential loans is significantly reduced.

For the business banking portfolio, the Group will hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

In the event of ongoing customer default and/or post appropriate customer hardship support and negotiations, the Group may enact possession of security held as collateral against the outstanding claim. Any loan security for residential mortgages is held as mortgagee in possession while the Group seeks to realise its value through the sale of the property. Therefore, the Group does not hold any real estate or other assets acquired through the repossession of collateral. It is the Group's practice to demonstrate high standards of conduct when taking recovery action, and to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

For impaired assets, considerable care is taken to assess the underlying collateral value taking into account the likely method of recovery such as whether the client sells or through a formal insolvency appointment, the time involved and likely costs associated with the strategy. At 30 June 2021 the net impaired loans of $121 million (2020: $110 million) were supported by collateral held against the impaired loans of $150 million (2020: $139 million). Collateral and other credit enhancements held by the Group mitigates the maximum exposure to credit risk.

### (d) Concentration of credit risk

Concentration of credit risk is managed by client or counterparty, industry sector and geography. Portfolios are actively monitored and frequently reviewed to identify, assess and protect against unacceptable risk concentrations. The following table details the credit risk by geographical concentration on gross loans and advances.

| | Consolidated | | Company | |
|---|---|---|---|---|
| Geographic breakdown | 2021 $M | 2020 $M | 2021 $M | 2020 $M |
| Queensland | 28,020 | 28,731 | 27,904 | 28,616 |
| New South Wales | 15,771 | 15,755 | 15,726 | 15,711 |
| Victoria | 7,393 | 7,073 | 7,386 | 7,066 |
| Western Australia | 3,686 | 3,779 | 3,686 | 3,778 |
| South Australia and other | 2,693 | 2,686 | 2,690 | 2,683 |
| Gross loans and advances | 57,563 | 58,024 | 57,392 | 57,854 |

Details of the aggregate number of the Group's corporate exposures (including direct and contingent exposures) which individually were greater than five per cent of the Group's capital resources (Tier 1 and Tier 2 capital) are as follows. A concentration risk management framework is in place to monitor exposure levels set at levels which are considered acceptable in line with the Group's lending appetite.

| Consolidated and Company | 2021 Number | 2020 Number |
|---|---|---|
| 25% and greater | - | 1 |
| 20% to less than 25% | 2 | - |
| 15% to less than 20% | 2 | 2 |
| 10% to less than 15% | 2 | - |
| 5% to less than 10% | 2 | 4 |

## 23.2 Liquidity risk

Executive management of liquidity and funding risk is delegated to the Bank Asset and Liability Committee (BALCO) which reviews risk measures and limits, endorses and monitors funding and liquidity strategy and ensures stress tests, the contingency funding plan and holdings of high-quality assets are effective and appropriate. Operational management of liquidity risk is delegated to the Balance Sheet Management team within Bank Treasury. Liquidity risk is independently monitored against approved policies on a daily basis by the Data Analytics and Treasury Risk Team. Market and Financial Risk Analytics provide second line of defence oversight of liquidity and funding management activities.

In conjunction with Group policies, the Bank has separate documents and processes to mitigate liquidity and funding risk which are approved by the Board Risk Committee and the Chief Risk Officer, Banking & Wealth, which are also subject to APRA review. These include:

- a liquidity and funding risk appetite statement as well as relevant risk limits
- a framework that includes control practices, early warning indicators and appropriate management notification structures, including but not limited to: deposit concentration, liquidity coverage ratio, net stable funding ratio and liquidity concentration metrics limits
- sourcing of retail deposits and long-term debt to provide funding for the majority of the funding portfolio. Funding capacity is monitored and diversity in the funding portfolio is managed with consideration given to product, tenor, geography and customer concentrations; and
- a contingency funding plan that outlines strategies to address liquidity shortfalls in stressed situations.

### (a) Maturity analysis

The following tables summarise the maturity profile of the Group's financial liabilities based on the remaining undiscounted contractual obligations. For liquidity risk management purposes, the Group's daily liquidity reporting is largely aligned to contractual maturity except where prescribed differently by APRA or where other methods are considered more appropriate. The Group supplements contractual maturity with other metrics including the liquidity coverage ratio and the net stable funding ratio to manage its liquidity risk.

The Company has participated in RBA facilities aimed at supporting both the economy and businesses during the COVID-19.

Derivatives designated in a hedging relationship are included according to their contractual maturity.

Contractual maturities for non-hedge accounted derivative liabilities are not included within the following tables as they are frequently settled and managed within the short term (refer to note 14).

| Consolidated | Carrying amount $M | At call $M | 0 to 3 months $M | 3 to 12 months $M | 1 to 5 years $M | Over 5 years $M | Total cash flows $M |
|---|---|---|---|---|---|---|---|
| **2021** | | | | | | | |
| Payables due to other banks | 103 | 103 | - | - | - | - | 103 |
| Deposits | 41,520 | 33,323 | 4,531 | 3,485 | 273 | - | 41,612 |
| Payables and other liabilities | 158 | - | 158 | - | - | - | 158 |
| Due to related parties | 84 | - | 84 | - | - | - | 84 |
| Borrowings | 18,746 | - | 3,762 | 4,146 | 10,561 | 764 | 19,233 |
| Subordinated notes[1] | 672 | - | 75 | 10 | 624 | - | 709 |
| | 61,283 | 33,426 | 8,610 | 7,641 | 11,458 | 764 | 61,899 |
| *Derivatives* | | | | | | | |
| Contractual amounts receivable (gross settled) | (919) | - | (4) | (42) | (868) | (17) | (931) |
| Contractual amounts payable (gross and net settled) | 1,167 | - | 41 | 130 | 988 | 20 | 1,179 |
| | 248 | - | 37 | 88 | 120 | 3 | 248 |
| *Off-balance sheet positions* | | | | | | | |
| Guarantees entered into in the normal course of business | - | 292 | - | - | - | - | 292 |
| Commitments to provide loans and advances | - | 10,247 | - | - | - | - | 10,247 |
| | - | 10,539 | - | - | - | - | 10,539 |
| **2020** | | | | | | | |
| Payables due to other banks | 293 | 293 | - | - | - | - | 293 |
| Deposits | 39,947 | 28,586 | 5,955 | 5,427 | 150 | - | 40,118 |
| Payables and other liabilities | 217 | - | 217 | - | - | - | 217 |
| Due to related parties | 80 | - | 80 | - | - | - | 80 |
| Borrowings | 20,129 | - | 5,124 | 5,914 | 8,532 | 1,153 | 20,723 |
| Subordinated notes[1] | 672 | - | 4 | 10 | 639 | 72 | 725 |
| | 61,338 | 28,879 | 11,380 | 11,351 | 9,321 | 1,225 | 62,156 |
| *Derivatives* | | | | | | | |
| Contractual amounts receivable (gross settled) | (138) | - | (11) | (26) | (82) | (20) | (139) |
| Contractual amounts payable (gross and net settled) | 582 | - | 53 | 188 | 306 | 37 | 584 |
| | 444 | - | 42 | 162 | 224 | 17 | 445 |
| *Off-balance sheet positions* | | | | | | | |
| Guarantees entered into in the normal course of business | - | 331 | - | - | - | - | 331 |
| Commitments to provide loans and advances | - | 8,777 | - | - | - | - | 8,777 |
| | - | 9,108 | - | - | - | - | 9,108 |

1 Cash flows for subordinated notes have been included at their next call date. The total cash flows include both principal and associated future interest payments. Interest is calculated based on liabilities held at reporting date, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the reporting date.

| Company | Carrying amount $M | At call $M | 0 to 3 months $M | 3 to 12 months $M | 1 to 5 years $M | Over 5 years $M | Total cash flows $M |
|---|---|---|---|---|---|---|---|
| **2021** | | | | | | | |
| Payables due to other banks | 103 | 103 | - | - | - | - | 103 |
| Deposits | 41,700 | 33,502 | 4,531 | 3,485 | 273 | - | 41,791 |
| Payables and other liabilities | 238 | - | 238 | - | - | - | 238 |
| Due to related parties[1] | 14,355 | - | 2,255 | - | - | 12,100 | 14,355 |
| Borrowings | 16,581 | - | 3,613 | 3,645 | 9,081 | 635 | 16,974 |
| Subordinated notes[2] | 672 | - | 75 | 10 | 624 | - | 709 |
| | 73,649 | 33,605 | 10,712 | 7,140 | 9,978 | 12,735 | 74,170 |
| *Derivatives* | | | | | | | |
| Contractual amounts receivable (gross settled) | (919) | - | (4) | (42) | (868) | (17) | (931) |
| Contractual amounts payable (gross and net settled) | 1,167 | - | 41 | 130 | 988 | 20 | 1,179 |
| | 248 | - | 37 | 88 | 120 | 3 | 248 |
| *Off-balance sheet positions* | | | | | | | |
| Guarantees entered into in the normal course of business | - | 292 | - | - | - | - | 292 |
| Commitments to provide loans and advances | - | 10,284 | - | - | - | - | 10,284 |
| | - | 10,576 | | | - | - | 10,576 |
| **2020** | | | | | | | |
| Payables due to other banks | 293 | 293 | - | - | - | - | 293 |
| Deposits | 39,967 | 28,606 | 5,955 | 5,427 | 150 | - | 40,138 |
| Payables and other liabilities | 287 | - | 287 | - | - | - | 287 |
| Due to related parties[1] | 15,128 | - | 3,028 | - | - | 12,100 | 15,128 |
| Borrowings | 17,184 | - | 4,917 | 5,250 | 6,835 | 656 | 17,658 |
| Subordinated notes[2] | 672 | - | 4 | 10 | 639 | 72 | 725 |
| | 73,531 | 28,899 | 14,191 | 10,687 | 7,624 | 12,828 | 74,229 |
| *Derivatives* | | | | | | | |
| Contractual amounts receivable (gross settled) | (138) | - | (11) | (26) | (82) | (20) | (139) |
| Contractual amounts payable (gross and net settled) | 582 | - | 53 | 188 | 306 | 37 | 584 |
| | 444 | - | 42 | 162 | 224 | 17 | 445 |
| *Off-balance sheet positions* | | | | | | | |
| Guarantees entered into in the normal course of business | - | 331 | - | - | - | - | 331 |
| Commitments to provide loans and advances | - | 8,829 | - | - | - | - | 8,829 |
| | - | 9,160 | | | - | - | 9,160 |

1 Funds raised from securitisation through the Apollo trusts are on-lent to the Company through intercompany loan agreements.

2 Cash flows for subordinated notes have been included at their next call date. The total cash flows include both principal and associated future interest payments. Interest is calculated based on liabilities held at reporting date, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the reporting date.

## (b) Composition of funding

Details of the composition of funding used by Group to raise funds are as follows.

| | Note | Consolidated 2021 $M | Consolidated 2020 $M | Company 2021 $M | Company 2020 $M |
|---|---|---|---|---|---|
| **Customer funding** | | | | | |
| *Customer deposits* | | | | | |
| At-call transactions deposits | | 17,248 | 14,782 | 17,428 | 14,802 |
| At-call savings deposits | | 16,180 | 13,902 | 16,180 | 13,902 |
| Term deposits | | 8,092 | 11,263 | 8,092 | 11,263 |
| **Total retail funding** | | 41,520 | 39,947 | 41,700 | 39,967 |
| **Wholesale funding** | | | | | |
| *Domestic funding* | | | | | |
| Short-term wholesale[2] | | 4,011 | 5,079 | 4,011 | 5,079 |
| Long-term wholesale[3] | | 7,346 | 5,532 | 7,346 | 5,532 |
| Covered bonds | | 2,091 | 2,589 | 2,091 | 2,589 |
| Subordinated notes | | 672 | 672 | 672 | 672 |
| Total domestic funding | | 14,120 | 13,872 | 14,120 | 13,872 |
| *Overseas funding*[1] | | | | | |
| Short-term wholesale[2] | | 1,763 | 1,498 | 1,763 | 1,498 |
| Long-term wholesale[3] | | 1,370 | 2,486 | 1,370 | 2,486 |
| Total overseas funding | | 3,133 | 3,984 | 3,133 | 3,984 |
| **Total wholesale funding** | | 17,253 | 17,856 | 17,253 | 17,856 |
| **Total funding (excluding securitisation)** | | 58,773 | 57,803 | 58,953 | 57,823 |
| **Securitisation** | | | | | |
| APS 120 qualifying[4] | | 2,165 | 2,945 | - | - |
| Total securitisation | | 2,165 | 2,945 | - | - |
| **Total funding (including securitisation)** | | 60,938 | 60,748 | 58,953 | 57,823 |
| **Comprised of the following items on the statement of financial position** | | | | | |
| Deposits | 10 | 41,520 | 39,947 | 41,700 | 39,967 |
| Borrowings | 11 | 18,746 | 20,129 | 16,581 | 17,184 |
| Subordinated notes | 16 | 672 | 672 | 672 | 672 |
| **Total funding** | | 60,938 | 60,748 | 58,953 | 57,823 |

1 Foreign currency borrowings are hedged back into Australian dollars.

2 Original maturity of less than 12 months.

3 Original maturity of 12 months or greater.

4 Qualifies for capital relief under APS 120 *Securitisation*.

## 23.3 Market risk

The Group is exposed to mainly two sources of market risk, being interest rate and foreign exchange risks. For the purposes of market risk management, these are further broken down into traded and non-traded market risks.

The Group uses value at risk (**VaR**) as one of the key measures of traded market risk and non-traded interest rate risk in the banking book (**IRRBB**). The VaR model is a statistical technique used to measure and quantify the market risk over a specific holding period at a given confidence level. The Group's standard VaR approach for traded and non-traded risk is based on a historical simulation which uses equally weighted market observation from the last two years and eight years respectively. Historical VaR simulation assumes that the distribution of past price returns will reflect future returns.

### (a) Traded market risk

The Group trades a range of on-balance sheet interest, foreign exchange and off-balance sheet derivative products. Income is earned through effective trading within the established risk management framework.

In addition to VaR, traded interest rate and foreign exchange risks are managed using a framework that includes stress-testing, scenario analysis, sensitivity and stop losses. These measures are monitored and reported to the Chief Risk Officer, Banking & Wealth and the BALCO for management oversight.

VaR is modelled at a 99 per cent confidence level over a one-day holding period for trading book positions.

The VaR for the Group's total interest rate and foreign exchange trading activities at the end of the financial year are as follows.

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| Consolidated and Company | Interest rate risk $M | FX risk $M | Combined risk[1] $M | Interest rate risk $M | FX risk $M | Combined risk[1] $M |
| VaR at the end of the financial year | 0.41 | 0.18 | 0.48 | 0.15 | 0.01 | 0.16 |
| Average VaR for the financial year | 0.31 | 0.12 | 0.31 | 0.15 | 0.14 | 0.23 |

1 VaR for combined risk is the total trading risk and foreign exchange risks, taking into account correlations between different positions in both the interest rate and foreign exchange trading portfolios.

### (b) Non-traded interest rate risk

Non-traded IRRBB is defined as all on-balance sheet items and off-balance sheet items in the banking portfolio that create an interest rate risk exposure within the Group. The main objective of IRRBB management is to maximise and stabilise net interest income in the long term.

Interest rate risk arises from changes in interest rates that expose the Group to the risk of loss in terms of earnings and/or economic value. There are several sources of IRRBB and they include:

- repricing risk: resulting from changes in the overall levels of interest rates and the effect this has on the banking book with respect to mismatches in repricing dates.
- yield curve risk: resulting from changes in the relative levels of interest rates at different tenors of the yield curve (that is a change in the slope or shape of the yield curve).
- basis risk: resulting from differences between the actual and expected interest margins on banking book items.
- optionality risk: resulting from the existence of stand-alone or embedded options to the extent that the potential for losses is not included in the measurement of repricing, yield curve or basis risks.
- embedded value risk: resulting from differences in transactions book value compared to market-to-market fair value due to past interest rate movements.

– spread risk: arises due to the imperfect movement of interest rates for different yield curves within an economy.

### (i) IRRBB – Net interest income sensitivity (NIIS)

IRRBB exposures are generated by using underlying reconciled financial position data to generate cash flows using relevant interest rate curves, and a static balance sheet assumption. Contractual cash flows are generated except for products where expected behavioural cash flow modelling is more appropriate, and they are modelled with a profile and at a term that can be statistically supported.

As a measure of shorter-term sensitivity, NIIS measures the sensitivity of the banking book earnings over the next 12 months to instantaneous parallel and non-parallel shocks to the yield curve. NIIS is measured using a two per cent downwards parallel and non-parallel shock to the yield curve to determine the potential adverse change in net interest income in the ensuing 12-month period.

The following table indicates the potential impact to NIIS from an adverse two per cent parallel movement in interest rates on the consolidated statement of financial position. The results are prepared based on the IRRBB framework applicable to the respective financial year.

| Consolidated and Company | 2021 $M | 2020 $M |
|---|---|---|
| Exposure at the end of the financial year | (7) | (20) |
| Average exposure during the financial year | (12) | (23) |

### (ii) Present value sensitivity

As a measure of longer-term sensitivity, present value sensitivity measures the sensitivity of the present value of all known future cash flows in the banking book, to instantaneous parallel and non-parallel shocks to the yield curve. All exposures have their known future cash flows present valued from relevant interest rate curves.

The following table indicates the potential impact to economic value from an adverse two per cent downwards parallel movement in interest rates on the consolidated statement of financial position.

The results are prepared based on the IRRBB framework applicable to the respective financial year.

| Consolidated and Company | 2021 $M | 2020 $M |
|---|---|---|
| Exposure at the end of the financial year | (69) | (48) |
| Average exposure during the financial year | (34) | (41) |

### (iii) Value at Risk

VaR is modelled at a 99% confidence level over a one-month holding period for IRRBB. The results are prepared based on the IRRBB framework applicable to the respective financial year.

| Consolidated and Company | 2021 $M | 2020 $M |
|---|---|---|
| Exposure at the end of the financial year | (19) | (20) |
| Average exposure during the financial year | (15) | (19) |

### (c) Non-traded foreign exchange risk

Non-traded foreign exchange risk can arise from having non-Australian dollar items in the banking portfolio, thereby exposing current and future earnings to movements in foreign exchange rates. The objective of foreign currency exchange risk management is to minimise the impact on earnings of any such movements. The Group policy is to fully hedge any such exposure and accordingly minimise exposure to the risk. All offshore borrowing facilities arranged as part of the overall funding diversification process have been economically hedged in respect of their potential foreign exchange risk through the use of financial derivatives (refer to note 14).

# Other disclosures

**This section includes other information about the Group's operations that are disclosed to comply with Australian Accounting Standards and the Corporations Act.**

## 24. Notes to the statements of cash flows

### 24.1 Reconciliation of cash flows from operating activities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2021 $M | 2020 $M | 2021 $M | 2020 $M |
| Profit for the financial year | 403 | 243 | 402 | 240 |
| **Non-cash items** | | | | |
| Impairment (release) loss on financial assets | (49) | 172 | (47) | 167 |
| Change in fair value relating to investing and financing activities | (21) | (17) | (21) | (17) |
| Other non-cash items | 9 | 32 | 7 | 29 |
| **Change in operating assets and liabilities** | | | | |
| Net movement in tax assets and liabilities | 15 | 31 | 21 | 28 |
| Increase in trading securities | (119) | (232) | (119) | (232) |
| Decrease in loans and advances | 441 | 1,229 | 442 | 1,213 |
| Net movement in balances with related parties | 16 | 116 | (942) | (806) |
| (Increase) decrease in other assets | (107) | 19 | (108) | 19 |
| Increase in deposits | 1,573 | 1,044 | 1,733 | 1,044 |
| Decrease in payables and other liabilities | (59) | (202) | (49) | (140) |
| **Net cash from operating activities** | 2,102 | 2,435 | 1,319 | 1,545 |

### 24.2 Reconciliation of cash and cash equivalents to the statements of cash flows

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2021 $M | 2020 $M | 2021 $M | 2020 $M |
| *Cash and cash equivalents at the end of the financial year in the statements of cash flows is represented by the following line items in the statements of financial position:* | | | | |
| Cash and cash equivalents | 68 | 211 | 66 | 210 |
| Receivables due from other banks[1] | 1,495 | 567 | 1,495 | 567 |
| Payables due to other banks[2] | (103) | (293) | (103) | (293) |
| | 1,460 | 485 | 1,458 | 484 |

1 Includes $78 million (2020: $147 million) of collateral representing credit support to secure the Group's derivative liability position, as part of the standard ISDA agreement.

2 Includes $62 million (2020: $260 million) of collateral representing credit support to secure the Group's derivative asset position, as part of the standard ISDA agreement.

# 25. Composition of the Company

## 25.1 Material subsidiaries of the Company

| Subsidiaries | Class of shares | Country of incorporation | 2021 Equity holding % | 2020 Equity holding % |
|---|---|---|---|---|
| APOLLO Series Trusts (various)[1] | Units | Australia | 100 | 100 |
| Suncorp Covered Bond Trust | Units | Australia | 100 | 100 |
| SME Management Pty Limited | Ordinary | Australia | 100 | 100 |
| Suncorp Metway Advances Corporation Pty Ltd | Ordinary | Australia | 100 | 100 |

1 The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold as securities to the wholly owned Apollo Series Trusts. As at 30 June 2021, the Company held interest in seven Trusts (2020: eight).

### Accounting policies

The Group's consolidated financial statements are the financial statements of the Company and all its subsidiaries, presented as those of a single economic entity. Intra-group transactions and balances are eliminated on consolidation.

#### Subsidiaries

Subsidiaries are entities controlled by the Group which includes companies and trusts. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date when control commences until the date on which control ceases.

Structured entities (**SE**) are entities created to accomplish a specific and well-defined objective such as the securitisation of particular assets or the execution of a specific borrowing or lending transaction. Critical judgments are applied in determining whether a SE is controlled and consolidated by the Group. A SE is consolidated if the Group is exposed to, or has rights to, variable returns from its involvement with the SE and has the ability to affect those returns through its power over the SE.

The main types of SE established by the Group are securitisation trusts and the Suncorp Covered Bond Trust. The securitisation trusts and the Suncorp Covered Bond Trust are controlled by the Group and are consolidated in the consolidated financial statements.

## 25.2 Consolidated structured entities

The Group has the following contractual arrangements which require it to provide support to its consolidated structured entities, Apollo Series Trusts.

### Liquidity facility

The Group provides a liquidity facility to the trustee of the trusts. If there is a remaining net liquidity shortfall, the trustee may be able to request an advance under the liquidity facility up to a total aggregate amount equal to the unutilised portion of the liquidity facility limit. Drawings under the liquidity facility will be subject to certain conditions precedent. The maximum amount which can be drawn is $207 million (2020: $217 million).

The amount drawn as of 30 June 2021 is $nil (2020: $nil).

### Redraw facility

The Group provides a redraw facility to the trustee of the trusts. If total principal collections for a monthly period are insufficient to fully reimburse the seller for redraws made during that monthly period to the extent the seller is entitled to be reimbursed, the trustee may be able to request an advance from the redraw facility provider under the redraw facility up to a total aggregate amount equal to the unutilised portion of the redraw facility limit. The provision of the redraw facility will be subject to normal credit criteria and a market rate of interest will be charged. Drawings under the redraw facility will be subject to certain conditions precedent. The maximum amount which can be drawn is $72 million (2020: $77 million).

The amount drawn as of 30 June 2021 is $nil (2020: $nil).

# 26. Key management personnel and related party disclosures

## 26.1 Key management personnel disclosures

As a wholly-owned subsidiary of Suncorp Group Limited, key management personnel (**KMP**) disclosures for the Company are consistent with those disclosed by Suncorp Group Limited.

Total compensation for KMP are as follows:

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Short-term employee benefits | 15,521 | 11,091 |
| Long-term employee benefits | 141 | 193 |
| Post-employment benefits | 508 | 475 |
| Share-based payments | 5,938 | 4,960 |
| Termination benefits | 1,888 | 1,693 |
| | 23,996 | 18,412 |

The ultimate parent entity has determined the compensation of KMP in accordance with their roles within the entire Suncorp Group. Employee service contracts do not include any compensation, including bonuses, specifically related to the role of KMP of the Company and to allocate a figure may in fact be misleading. There is no link between KMP compensation and the financial results of the Company. Therefore, as there is no reasonable basis for allocating a KMP compensation amount to the Company, the entire compensation of the KMP has been disclosed above.

Loans to KMP and their related parties are secured housing loans and asset lines provided in the ordinary course of business. All loans have normal commercial terms, which may include staff discounts at the same terms available to all employees of the Group. The loans may have offset facilities, in which case the interest charged is after the offset. No amounts have been written down or recorded as SP, as the balances are considered fully collectable.

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to KMP and their related parties are as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Key management personnel $000 | Other related parties $000 | Key management personnel $000 | Other related parties $000 |
| Closing balance | 856 | 404 | 1,214 | 1,222 |
| Interest charged | 11 | 15 | 79 | 26 |

## 26.2 Other related party transactions

| | Consolidated 2021 $000 | Consolidated 2020 $000 | Company 2021 $000 | Company 2020 $000 |
|---|---|---|---|---|
| The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are: | | | | |
| Other operating income | | | | |
| Subsidiaries | - | - | 487,148 | 367,526 |
| Other related parties | 4,432 | 1,932 | 4,432 | 1,932 |
| Interest expense | | | | |
| Subsidiaries | - | - | 681 | 884 |
| Other related parties | 14,497 | 19,843 | 14,497 | 19,843 |
| Operating expenses[1] | | | | |
| Subsidiaries | - | - | 515,428 | 441,958 |
| Other related parties | 724,136 | 678,309 | 724,136 | 678,309 |
| Dividends paid | | | | |
| Parent entity | 171,000 | 322,300 | 171,000 | 322,300 |
| Other related parties | 16,374 | 20,081 | 16,374 | 20,081 |
| Aggregate amounts receivable from, and payable to, each class of related parties as at the end of the financial year | | | | |
| Investment securities | | | | |
| Subsidiaries | - | - | 25 | 25 |
| Due from related parties | | | | |
| Subsidiaries | - | - | 12,509,199 | 12,334,973 |
| Other related parties | 222,812 | 230,499 | 222,812 | 230,499 |
| Deposits | | | | |
| Subsidiaries | - | - | 181,047 | 19,636 |
| Other related parties | 319,668 | 363,788 | 319,668 | 363,788 |
| Due to related parties | | | | |
| Subsidiaries | - | - | 14,271,002 | 15,047,839 |
| Other related parties | 84,127 | 80,478 | 84,127 | 80,478 |
| Subordinated notes | | | | |
| Other related parties | 600,000 | 600,000 | 600,000 | 600,000 |

1 As set out in note 5, operating expenses such as employee expenses, depreciation and amortisation are incurred directly by Suncorp Group's corporate service subsidiaries and recharged to the Group via an internal allocation methodology.

The Company has a related party relationship with its subsidiaries (refer to note 25), parent entity and other subsidiaries controlled by the Suncorp Group and with its key management personnel (refer to note 26.1).

A number of banking transactions occur between the Company and related parties within the Suncorp Group. These include loans, deposits and foreign currency transactions, upon which fees, commissions and interest may be earned. These transactions occur in the normal course of business and are on terms equivalent with those made on an arm's length basis, except that some short term intercompany advances may be interest free.

Related party loans and advances are disclosed within the statement of financial position caption 'Due from related parties'. All amounts are expected to be fully recoverable. The key terms of the material financing arrangements as at 30 June 2021 are presented in the table below:

| Consolidated and Company | Facility $M | Carrying amount $M | Interest rate % | Maturity |
|---|---|---|---|---|
| Long-term fixed facility[1] | 94 | 85 | BBSW 90 + 2.15% | 30 Jun 2027 |
| Revolving facility | 120 | 115 | BBSW 90 + 2.15% | 30 Sep 2023 |
| **Total loans and advances to other related parties** | 214 | 200 | | |

1 The terms of the Long-term fixed facility require the borrower to make fixed repayments in accordance with the amortisation schedule. Repaid amounts cannot be redrawn by the borrower.

## 27. Auditor's remuneration

| | Consolidated 2021 $000 | Consolidated 2020 $000 | Company 2021 $000 | Company 2020 $000 |
|---|---|---|---|---|
| **KPMG Australia** | | | | |
| **Audit and review services** | | | | |
| Audit and review of financial reports | 1,077 | 1,149 | 971 | 1,022 |
| | 1,077 | 1,149 | 971 | 1,022 |
| **Assurance services** | | | | |
| Regulatory assurance services | 568 | 697 | 568 | 697 |
| Other assurance services | 142 | 474 | 19 | 345 |
| | 710 | 1,171 | 587 | 1,042 |
| **Total Auditors' remuneration** | 1,787 | 2,320 | 1,558 | 2,064 |

Fees for services rendered by the Company's auditor are borne by a related entity within the Group.

## 28. Contingent assets and liabilities

### 28.1 Contingent assets

Contingent assets are not recognised, but are disclosed in the consolidated financial statements when inflows are probable. If inflows become virtually certain, an asset is recognised.

There are claims and possible claims made by the Group against external parties. Where considered appropriate, privileged 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, is likely to have a material effect on its operations or financial position. The Group is of the opinion that receivables are not required in respect of these matters, as the inflow of future economic benefits is probable but not virtually certain.

### 28.2 Contingent liabilities

Contingent liabilities are not recognised, but are disclosed in the consolidated financial statements, unless the possibility of settlement is remote, in which case no disclosure is made. If settlement becomes probable and the amount can be reliably estimated, a provision is recognised.

There are contingent liabilities facing the Group in respect of the matters below. The Group is of the opinion that the outcome and total costs arising from these matters remain uncertain at this time and as such the matters have not been provided for.

#### Regulatory and internal reviews

Reviews and enquiries from regulators may result in investigation costs, administrative costs, legal costs, system changes and compensation and / or remediation payments (including interest) or fines. The Group conducts internal reviews of its regulatory compliance, which it may disclose to the regulators, which may result in similar costs.

In recent periods, a number of regulators including ASIC, APRA, Australian Competition and Consumer Commission, Australian Transaction Reports and Analysis Centre (**AUSTRAC**) and the Australian Taxation Office conducted reviews and made enquiries with the Group. There were a number of non-compliance instances identified and disclosed by the Group to ASIC, APRA and AUSTRAC.

The Group is currently subject to ASIC's Close and Continuous Monitoring Program, which includes providing documents and data to ASIC and interviews with staff members. The focus of the review relates to Internal Dispute Resolution and Breach and Incident Management processes. ASIC issued its report to the Group on 30 June 2021. The Group is reviewing ASIC's report and an action plan will be put in place. No material financial impact is expected.

In July 2020, the Company notified AUSTRAC that it had not reported a limited type of incoming cross-border transactions received through a card scheme platform which, following internal review, it now considers should have been reported as International Funds Transfer Instructions. The Company suspended the receipt of these payments through the card scheme platform, conducted investigations and provided an update to AUSTRAC on 2 November 2020 on its remediation activities. After conducting an internal review and the completion of remediation activities, the Company provided correspondence to AUSTRAC detailing remediation work and the internal closure of the matter on 19 May 2021. AUSTRAC is yet to formally respond to the Company regarding the breach and any further reporting and/or information AUSTRAC may deem necessary.

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 and the outflow becomes probable, then the amount would be provisioned.

### Customer remediation and complaints

The Group is currently undertaking a number of programs of work to resolve prior issues that in some cases impact customers. 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 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 reviews and customer complaints 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 and the outflow becomes probable, then the amount would be 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 the Group's focus on culture and compliance matters. The Government's program in response to the recommendations of the Royal Commission continues to evolve with the Financial Sector Reform (Hayne Royal Commission Response) Bill 2020 passing both Houses of Parliament on 10 December 2020. The Group is progressing with implementation of these reforms and continues to 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, privileged 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 and the outflow becomes probable, then the amount would be provisioned.

### Other

A non-material subsidiary of the Company acts as the trustee for a trust. In this capacity, the subsidiary is liable for the debts of the trust but is entitled to be indemnified out of the trust assets for all liabilities incurred on behalf of the trust.

The Company issued a letter of financial support to the directors of Suncorp Metway Advances Corporation Pty Ltd (**SMAC**), a wholly owned subsidiary of the Company. The letter confirmed that necessary financial support will be provided in the event SMAC is unable to meet its financial obligations as and when they fall due. No provision has been recognised in the Company's statement of financial positions for the amount of the financial support provided as the likelihood of SMAC being unable to meet its financial obligations is determined as not being probable.

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.

## 29. New Australian Accounting Standards

### Revised Conceptual Framework

The Company has applied the Revised Conceptual Framework (**AASB Framework**) for Financial Reporting from 1 July 2020. The AASB Framework establishes consistent concepts upon which future accounting standards will be developed. The AASB Framework also includes amendments to the definition and recognition criteria for assets, liabilities, income and expenses, guidance on measurement and derecognition, and other relevant financial reporting concepts. The impact on the Company's consolidated financial statements is not considered to be material.

### Interest rate benchmark reform

Inter-Bank Offered Rates (**IBOR**) is currently undergoing reform around the world with rates such as the LIBOR expected to be discontinued from 1 January 2022. IBOR are interest rate benchmarks that are used in a wide variety of financial instruments. The transition from LIBOR is expected to have an impact on various elements of financial instrument accounting, including hedge accounting, loan modifications, valuation methodologies and financial disclosures.

As a result of the reform the AASB has issued the following amendments:

– *AASB 2019-3 Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform*: These amendments were effective to the Group from 1 July 2020 and did not have a significant impact on the Group.

– *AASB 2020-8 Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - Phase 2*: The amendments were effective from 1 July 2021 and the adoption is expected to be immaterial to the Group.

In response to the reform and the amendments issued by the AASB, the Group has established a project team to comprehensively assess, manage and operationalise the impacts of the LIBOR transition.

The Group's exposure to LIBOR transition is limited to certain offshore borrowings denominated in USD, as well as associated cross currency swaps which are used to hedge exposures to interest rate and foreign exchange risks on those offshore borrowings. These risk exposures (including USD LIBOR) are designated in hedge accounting relationships (refer to note 14.1). The replacement of USD LIBOR is expected to impact the contractual cash flows, therefore valuation and hedge accounting calculations on these exposures are subject to the accounting amendments outlined above.

## 30. Subsequent events

Other than the early redemption of the Basel III transitional subordinated notes (refer to note 16), 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 directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years. The Group notes the ongoing COVID-19 lockdowns that have been implemented subsequent to reporting date across a number of states. The impact of these lockdowns has been considered in the consolidated financial statements. The impact of COVID-19 on the Group's estimates and judgments is set out in note 2.3.

# Directors' declaration

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

   a. the financial statements and notes set out on pages 6 to 62, are in accordance with the *Corporations Act 2001*, including:

      i. giving a true and fair view of the Company's and the Group's financial position as at 30 June 2021 and of their performance for the financial year ended on that date; and

      ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*

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

2. The directors draw attention to note 2.1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

3. Pursuant to subsection (2)(b) of section 5 of ASIC Corporations (Disclosing Entities) Instrument 2016/190, the directors of the Company resolve that there are no reasons to believe that the Company may become a disclosing entity before 30 June 2022.

Signed in accordance with a resolution of the directors:

CHRISTINE MCLOUGHLIN, AM

Chairman

STEVE JOHNSTON

Group Chief Executive Officer and Managing Director

26 August 2021

KPMG

# Independent Auditor's Report

## To the shareholder of Suncorp-Metway Limited

### Opinions

We have audited the consolidated Financial Report of Suncorp-Metway Limited (the Group Financial Report). We have also audited the Financial Report of Suncorp-Metway Limited (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report of Suncorp-Metway Limited are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's and Company's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective ***Financial Reports*** of the Group and the Company comprise:

- *Statements of financial position* as at 30 June 2021
- *Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration.*

The ***Group*** consists of Suncorp-Metway Limited (the Company) and the entities it controlled at the year end or from time to time during the financial year.

### Basis for opinions

We conducted our audits 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 opinions.

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

We are independent of the Group and Company in accordance with *the Corporations Act 2001* and 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 audits of the Financial Reports in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

### Other Information

Other Information is financial and non-financial information in Suncorp-Metway Limited's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Directors' Report and our related assurance opinion.

In connection with our audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audits, 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 the Directors for the Financial Reports

The Directors are responsible for:

- preparing Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error
- assessing the Group and Company'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 Group and Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether each of the Financial Reports as a whole are 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 Report.

A further description of our responsibilities for the audits of the Financial Reports is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Scott Guse

*Partner*

Brisbane

26 August 2021