Suncorp-Metway Limited and subsidiaries
ABN 66 010 831 722

Consolidated interim financial report

For the half-year ended 31 December 2020

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Directors' Report

The directors present their report together with the interim financial report of the consolidated entity (the **Group**), being Suncorp-Metway Limited (the **Company**) and its subsidiaries for the half-year ended 31 December 2020 and the auditor's review report thereon. Terms that are defined appear in bold the first time they are used.

1. Directors

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

Non-executive

Christine McLoughlin (Chairman)	Director since 2015, Chairman since 2018
Sally Herman	Director since 2015
Simon Machell	Director since 2017
Douglas McTaggart	Director since 2012
Lindsay Tanner	Director since 2018
Sylvia Falzon	Director since 2018
Ian Hammond	Director since 2018
Elmer Funke Kupper	Appointed 1 January 2020
Audette Exel AO	Retired 30 September 2020

Executive

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

2. Dividends

In line with the updated capital management and dividend guidance issued by the Australian Prudential Regulation Authority (**APRA**) on 29 July 2020, the directors determined that a 2020 final dividend on ordinary shares would not be paid. The Company paid dividends on capital notes totalling $8 million during the half-year.

A 2021 interim dividend on ordinary shares of $171 million (61 cents per share) has been determined by the directors.

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

3. Review of operations

3.1. Overview of the Group

The Group delivered net profit after tax attributable to owners of the Company of $180 million for the half-year ended 31 December 2020 (December 2019: $168 million). The result benefitted from strong improvement in net interest income, partially offset by a small increase in impairment losses and reduced lending volumes.

3.2. Financial position and capital structure

Net assets of the Group are $4,272 million (June 2020: $4,074 million). The increase was a result of total comprehensive income for the period of $206 million, partially offset by dividend payments of $8 million on capital notes.

The regulatory Common Equity Tier 1 ratio continued to be strong at 10.05% (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 Disclosures are available at suncorpgroup.com.au/investors/reports.

3.3. Review of principal businesses

Net interest income increased 4.0% to $618 million (December 2019: $594 million), resulting in the net interest margin increasing by 12 basis points to 2.04%. This was primarily driven by strong growth in the Group's retail deposits and significantly lower benchmark rates in the market, more than offsetting a reduction in earnings from trading and investment securities.

Operating expenses increased 2.2% to $377 million (December 2019: $369 million), partially due to an increase in technology and staffing costs.

Impairment losses on loans and advances of $8 million (December 2019: $1 million) were below the lower end of the through-the-cycle operating range, primarily due to the provision recognised in June 2020 for the impacts of COVID-19. The June 2020 provision level has been maintained.

Loans and advances decreased 1.2% to $57,026 million (June 2020: $57,723 million). The home lending portfolio contracted 1.6% over the half-year with improved new business volumes more than offset by higher levels of customer repayments, property sales and external refinancing. The business lending portfolio increased 0.7% over the half-year, primarily driven by growth in the commercial lending portfolio resulting from select lending to proven commercial property investment customers.

Deposits and short-term borrowings increased 1.7% to $47,294 million (June 2020: $46,524 million). The at-call deposits portfolio continued to achieve above-system growth, increasing 13.1% to $32,432 million (June 2020: $28,684 million) over the half-year. Growth was split between transaction accounts ($1,450 million) and savings accounts ($2,298 million). At the same time, the Group optimised the customer deposit portfolio and reduced reliance on relatively more expensive term deposit funding, which reduced by 20.0% to $9,011 million (June 2020: $11,263 million). The contraction in the term deposit portfolio is a direct response to the strong growth in the at-call portfolio. The Group's deposit-to-loan ratio of 72.3% is above the target operating range of 60% to 70%, reflecting strong at-call deposit growth and subdued lending.

4. Events subsequent to reporting date

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

5. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the half-year ended 31 December 2020.

6. Rounding of amounts

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

Signed in accordance with a resolution of the directors.

C. McLoughlin.

CHRISTINE MCLOUGHLIN
Chairman of the Board

STEVE JOHNSTON
Group Chief Executive Officer and Managing Director

9 February 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 review of Suncorp-Metway Limited for the half-year ended 31 December 2020 there have been:

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

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

KPMG

KPMG

Scott Guse

Partner

Brisbane

9 February 2021

Consolidated interim statement of comprehensive income

For the half-year ended 31 December 2020

	Note	Dec 2020 $M	Dec 2019 $M
Interest income	5.1	891	1,123
Interest expense	5.1	(273)	(529)
Net interest income	5.1	618	594
Other operating income	5.2	24	16
Total net operating income		642	610
Operating expenses		(377)	(369)
Impairment loss on financial assets	7.2	(8)	(1)
Profit before income tax		257	240
Income tax expense		(77)	(72)
Profit for the period attributable to owners of the Company		180	168
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges		4	21
Net change in fair value of investment securities		33	(3)
Income tax expense		(11)	(5)
Total other comprehensive income for the period		26	13
Total comprehensive income for the period attributable to owners of the Company		206	181

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

Consolidated interim statement of financial position

As at 31 December 2020

	Note	Dec 2020 $M	Jun 2020 $M
Assets			
Cash and cash equivalents		260	211
Receivables due from other banks		1,212	567
Trading securities		1,371	1,460
Derivatives		368	691
Investment securities		4,634	4,814
Loans and advances	6	57,026	57,723
Due from related parties		248	230
Deferred tax assets		64	78
Other assets		160	172
Total assets		65,343	65,946
Liabilities			
Payables due to other banks		68	293
Deposits and short-term borrowings	8	47,294	46,524
Derivatives		530	534
Payables and other liabilities		132	217
Due to related parties		65	80
Securitisation liabilities	9	2,590	2,945
Long-term borrowings	9	9,720	10,607
Subordinated notes		672	672
Total liabilities		61,071	61,872
Net assets		4,272	4,074
Equity			
Share capital		2,754	2,754
Capital notes	11	585	585
Reserves		(237)	(258)
Retained profits		1,170	993
Total equity attributable to owners of the Company		4,272	4,074

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

Consolidated interim statement of changes in equity

For the half-year ended 31 December 2020

	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 period		-	-	-	168	168
Total other comprehensive income for the period		-	-	13	-	13
Total comprehensive income for the period		-	-	13	168	181
Transactions with owners, recorded directly in equity						
Shares issued		106	-	-	-	106
Dividends paid	3	-	-	-	(174)	(174)
Transfers		-	-	(18)	18	-
Balance as at 31 December 2019		2,754	585	(264)	1,081	4,156
Balance as at 1 July 2020		2,754	585	(258)	993	4,074
Profit for the period		-	-	-	180	180
Total other comprehensive income for the period		-	-	26	-	26
Total comprehensive income for the period		-	-	26	180	206
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(8)	(8)
Transfers		-	-	(5)	5	-
Balance as at 31 December 2020		2,754	585	(237)	1,170	4,272

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

Consolidated interim statement of cash flows

For the half-year ended 31 December 2020

	Note	Dec 2020 $M	Dec 2019 $M
Cash flows from operating activities			
Interest received		893	1,143
Interest paid		(317)	(576)
Fees and other operating income received		113	107
Fees and operating expenses paid		(517)	(610)
Reimbursement to related parties for income tax payments		(98)	(47)
Net movement in operating assets			
Trading securities		89	329
Loans and advances		683	784
Net movement in operating liabilities			
Net movement in amounts with related parties		10	19
Deposits and short-term borrowings		944	669
Net cash from operating activities		1,800	1,818
Cash flows from investing activities			
Proceeds from the sale or maturity of investment securities		1,587	656
Payments for acquisition of investment securities		(1,448)	(556)
Net cash from investing activities		139	100
Cash flows from financing activities			
Proceeds from long-term borrowings and securitisation liabilities	9	1,341	1,200
Repayment of long-term borrowings and securitisation liabilities	9	(2,353)	(2,124)
Proceeds from issue of ordinary shares		-	106
Dividends paid	3	(8)	(174)
Net cash (used in) financing activities		(1,020)	(992)
Net increase in cash and cash equivalents		919	926
Cash and cash equivalents at the beginning of the period		485	784
Cash and cash equivalents at the end of the period		1,404	1,710
Cash and cash equivalents at the end of the period comprises:			
Cash and cash equivalents		260	1,529
Receivables due from other banks		1,212	470
Payables due to other banks		(68)	(289)
		1,404	1,710

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

Notes to the consolidated interim financial statements

For the half-year ended 31 December 2020

1. Reporting entity

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

The consolidated interim financial statements for the half-year ended 31 December 2020 comprise the Company and its subsidiaries (the **Group**) and were authorised for issue by the Board of Directors on 9 February 2021.

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

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

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

2. Basis of preparation

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

The consolidated interim financial report does not include all of the information required for a full consolidated annual financial report, and should be read in conjunction with the consolidated financial report of the Group for the financial year ended 30 June 2020 and any public announcements made by the Suncorp Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Australian Securities Exchange (**ASX**) Listing Rules. The consolidated financial report of the Group for the financial year ended 30 June 2020 is available upon request from the Company's registered office or at suncorpgroup.com.au/investors/reports.

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 interim financial statements is not considered to be material. All accounting policies applied by the Group in this consolidated interim financial report are the same as those applied in its consolidated financial report for the financial year ended 30 June 2020.

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

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

2.1 Use of estimates and judgements

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

The significant judgements made by management in applying the Group accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial report as at and for the financial year ended 30 June 2020.

The changes in estimates and the movements over the half-year ended 31 December 2020 for the provision for impairment and gross carrying amount of loans and advances in different expected credit loss (ECL) stages are set out in note 7.

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 consistent with those applied in the preparation of the consolidated financial report for the financial year ended 30 June 2020.

While the effects of COVID-19 do not change the areas requiring significant estimation and judgement in the preparation of financial statements, it has resulted in estimation uncertainty and application of further judgement within those identified areas. The following matters are provided as an update to the COVID-19 effects disclosed as at 30 June 2020.

Provision for impairment on financial assets

The COVID-19 pandemic, together with measures implemented to contain the virus, continues to have a profound impact on the Australian and global economy. COVID-19 related impacts to residential property prices and unemployment have been less severe than anticipated by the Group at 30 June 2020, however this could change in coming months as government support and loan payment deferrals reduce or expire. There is also the risk of further waves of infection which could delay economic recovery to varying degrees. Accordingly, significant estimation uncertainty with respect to the provision for impairment on financial assets remains, as forecast macroeconomic conditions are a key factor in determining the ECL for loans and advances.

Notwithstanding that credit model inputs and assumptions, including forward-looking macroeconomic assumptions, have been revised in response to the COVID-19 pandemic, the fundamental credit model mechanics and methodology underpinning the Group's calculation of ECL have remained consistent with prior periods. Further details on the ECL model methodology, estimates and assumptions are outlined in note 7.3.

Valuation of financial instruments and hedge accounting

The Group continues to monitor valuation inputs when determining fair value of financial instruments. The Group's derivative assets and liabilities, trading and investment securities are valued using inputs from observable market data as shown in the Group fair value hierarchy disclosure (note 12).

The Group's ongoing hedge capacity testing confirmed that designated forecast cash flows remain highly probable and the designated derivatives remain eligible for hedge accounting.

3. Dividends

		Dec 2020		Dec 2019	
	Note	Cents per share[1]	$M	Cents per share[1]	$M
Dividend payments on ordinary shares					
2020 final dividend[2] (December 2019: 2019 final dividend)		-	-	58	164
Dividend payments on capital notes	11		8		10
Total dividends			8		174
Dividends not recognised in the consolidated interim statement of financial position					
Dividends determined since reporting date					
2021 interim dividend (December 2019: 2020 interim dividend)		61	171	56	158
			171		158

1 Cents per share is rounded to the nearest cent.

2 In line with the updated capital management and dividend guidance issued by the Australian Prudential Regulation Authority (**APRA**) on 29 July 2020, the directors determined that a 2020 final dividend on ordinary shares would not be paid.

4. Segment reporting

The basis of segmentation and basis of measurement of segment results are the same as those applied by the Group in its consolidated financial report for the financial year ended 30 June 2020.

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

5. Net operating income

5.1. Net interest income

	Dec 2020 $M	Dec 2019 $M
Interest income		
Cash and cash equivalents	-	2
Receivables due from other banks	-	1
Trading securities	2	7
Investment securities	35	54
Loans and advances	854	1,059
Total interest income	891	1,123
Interest expense		
Deposits and short-term borrowings:		
at amortised cost	(144)	(314)
designated at fair value through profit and loss	(3)	(19)
Derivatives[1]	(10)	(4)
Securitisation liabilities	(21)	(43)
Long-term borrowings	(88)	(138)
Subordinated notes	(7)	(11)
Total interest expense	(273)	(529)
Net interest income	618	594

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.

5.2. Other operating income

	Dec 2020 $M	Dec 2019 $M
Banking fee and commission income	85	91
Banking fee and commission expense	(73)	(74)
Net banking fee and commission income	12	17
Net gains (losses) on:		
Trading securities at fair value through profit and loss	-	(1)
Financial liabilities at fair value through profit and loss	(1)	1
Derivative financial instruments at fair value through profit and loss	-	(3)
Amount recycled into profit and loss on derecognition of investment securities at fair value through other comprehensive income	9	2
Other revenue	4	-
	12	(1)
Total other operating income	24	16

6. Loans and advances

	Note	Dec 2020 $M	Jun 2020 $M
Retail loans			
Housing loans		40,448	40,403
Securitised housing loans and covered bonds		5,270	6,071
Consumer loans		151	155
		45,869	46,629
Business loans			
Commercial (SME)		7,417	7,295
Agribusiness		4,039	4,081
		11,456	11,376
Other lending		5	19
Gross loans and advances		57,330	58,024
Provision for impairment	7	(304)	(301)
Net loans and advances		57,026	57,723

The Group continues to be focused on supporting customers who are experiencing financial difficulties as a result of the COVID-19 global pandemic and has offered a range of industry-wide financial assistance measures including temporary loan repayment deferrals (principal and interest). As at 31 December 2020, the Group has significantly progressed the six-month review process for the COVID-19 related loan deferrals, with the majority of the Group's customers no longer requiring further relief and electing to resume loan repayments.

At reporting date, the gross carrying value of loans and advances that are subject to a COVID-19 financial assistance package total $644 million (30 June 2020: $4,828 million), comprised of housing loans of $508 million (30 June 2020: $3,752 million), SME lending of $91 million (30 June 2020: $697 million) and other business and retail lending of $45 million (30 June 2020: $379 million).

7. Provision for impairment on financial assets

7.1 Reconciliation of provision for impairment on financial assets

The table below shows the reconciliation of the ECL, specific provision (SP) and gross carrying amount for loans and advances (GLA) for the half-year ended 31 December 2020.

	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 2020	55,076	124	2,023	74	793	57	132	46	58,024	301
Transfers:										
Transfer to stage 1	849	29	(780)	(22)	(69)	(7)	-	-	-	-
Transfer to stage 2	(1,182)	(7)	1,328	14	(145)	(7)	(1)	-	-	-
Transfer to stage 3	(103)	-	(96)	(5)	169	-	30	5	-	-
New loans and advances originated	5,273	18	-	-	-	-	-	-	5,273	18
Increase in ECL/SP	-	31	-	46	-	14	-	8	-	99
Loans and advances derecognised	(5,670)	(68)	(184)	(23)	(104)	(13)	(9)	(6)	(5,967)	(110)
SP written-off	-	-	-	-	-	-	-	(3)	-	(3)
Unwind of discount	-	-	-	-	-	-	-	(1)	-	(1)
As at 31 December 2020	54,243	127	2,291	84	644	44	152	49	57,330	304
Provision for impairment on:										
Loans and advances	(110)		(79)		(44)		(49)		(282)	
Commitments & guarantees	(17)		(5)		-		-		(22)	
Net carrying amount as at 31 December 2020	54,116		2,207		600		103		57,026	

7.2 Impairment loss on financial assets

	Dec 2020 $M	Dec 2019 $M
Increase (decrease) in collective provision for impairment	-	(8)
Increase in specific provision for impairment	7	8
Bad debts written off	2	2
Bad debts recovered	(1)	(1)
Total impairment loss on loans and advances	8	1

7.3 Expected credit loss model methodology, estimates and assumptions

The impacts of COVID-19 have resulted in significant estimation uncertainty in relation to the measurement of the Group's ECL for loans and advances. The impacts of COVID-19 on consumers and businesses as well as the government stimulus packages deployed are unprecedented. Accordingly, significant adjustments to the ECL could occur in future periods as the full effects of COVID-19 are better understood.

Reported ECL

The Group calculates the ECL by considering a distribution of economic outcomes around the best estimate underlying scenario, with the best estimate reflecting the Group's view of the most likely economic scenario. 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 best estimate 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* requires the ECL to be the probability weighted ECL outcome calculated for a range of possible outcomes.

In determining the Reported ECL of $255 million, a distribution of outcomes around the best estimate economic scenario is adopted for both probability of default (**PD**) and loss given default (**LGD**), taking into consideration observed variability in economic outcomes and collateral values. The macroeconomic outlook, as reflected in the best estimate 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 and rolling back of government support. Accordingly, the PD and LGD distributions around the best estimate have been adjusted to increase the weighting to the downside outcomes. This is illustrated by the Group's Reported ECL calculation reflecting the following outcomes modelled around the best estimate scenario:

- For PD, a 10 per cent probability that mortgage defaults over the next year are consistent with an increase in unemployment to 11.0 per cent; and
- For LGD, a 10 per cent probability that Queensland metro house prices fall in excess of 23.2 per cent over the next year. Similarly, the ECL calculation reflects a 10 per cent probability that commercial property prices fall in excess of 34.6 per cent over the next year.

Key macroeconomic information that has been utilised in the base case is presented below. The base case reflects the Group's view of the most likely economic scenario at a point in time, noting the economic environment is uncertain and recent data points would indicate a more positive outlook. Notwithstanding, the Group considers the reported ECL as at 31 December 2020 to remain appropriate.

	Reported ECL %	
	June 21	June 22
GDP growth - annual change	6.0	3.1
Property prices - residential - annual change	(0.8)	(0.5)
Property prices - commercial - annual change	(11.5)	4.6
Unemployment rate	7.5	6.5

8. Deposits and short-term borrowings

	Dec 2020 $M	Jun 2020 $M
Financial liabilities at amortised cost		
Call deposits	32,432	28,684
Term deposits	9,011	11,263
Short-term securities issued	4,127	5,079
Total deposits and short-term borrowings at amortised cost	45,570	45,026
Financial liabilities designated at fair value through profit or loss		
Offshore commercial paper	1,724	1,498
Total deposits and short-term borrowings	47,294	46,524

Deposits and short-term borrowings obtained under repurchase agreements with the Reserve Bank of Australia (**RBA**) and outstanding at 31 December 2020 are $421 million (30 June 2020: $817 million).

9. Issues and repayments of debt securities

	Liabilities arising from financing activities	
	Securitisation liabilities $M	Long-term borrowings $M
Balance as at 1 July 2019	3,831	10,358
Cash flows		
Proceeds	-	1,200
Repayments	(437)	(1,687)
Transaction costs	-	(2)
Non-cash changes	2	15
Balance as at 31 December 2019	3,396	9,884
Cash flows		
Proceeds	-	1,850
Repayments	(452)	(1,330)
Transaction costs	-	(2)
Non-cash changes	1	205
Balance as at 30 June 2020	2,945	10,607
Cash flows		
Proceeds[1]	-	1,341
Repayments	(356)	(1,997)
Transaction costs	-	-
Non-cash changes	1	(231)
Balance as at 31 December 2020	2,590	9,720

1 During the half-year, the Group has drawn down $1,341 million under the Term Funding Facility which was made available by the RBA in response to the COVID-19 pandemic. The Group fully utilised its initial allowance of $1,741 million by drawing down $641 million during the half-year. The remaining $700 million was drawn from the Group's supplementary allowance with an undrawn amount of $2,043 million remaining under the supplementary and additional allowances.

10. Share capital

There have been no issues or buy-backs of issued capital during the current half-year. As at 31 December 2020, the number of ordinary shares on issue was 282,147,584 (30 June 2020: 282,147,584).

11. Capital notes

	Dec 2020		Jun 2020	
	No of notes	$M	No of notes	$M
Issued on 5 May 2017	3,750,000	375	3,750,000	375
Issued on 18 December 2017	1,750,000	175	1,750,000	175
Issued on 27 May 2019	350,000	35	350,000	35
Balance at the end of the financial period	5,850,000	585	5,850,000	585

	Dec 2020		Dec 2019	
	Cents per note[1]	$000	Cents per note[1]	$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
Issued on 18 December 2017				
September quarter	66	1,158	87	1,528
December quarter	65	1,142	82	1,431
Issued on 27 May 2019				
September quarter	66	232	87	306
December quarter	65	228	82	286
Total dividend payments on capital notes		8,281		10,486

1 Cents per note is rounded to the nearest cent.

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

12. Fair value of financial instruments

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

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

Financial assets and liabilities measured at fair value

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

		Dec 2020				Jun 2020			
	Note	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets									
Trading securities		310	1,061	-	1,371	435	1,025	-	1,460
Investment securities		-	4,634	-	4,634	-	4,814	-	4,814
Derivatives		2	366	-	368	1	690	-	691
		312	6,061	-	6,373	436	6,529	-	6,965
Financial liabilities									
Offshore commercial paper[1]	8	-	1,724	-	1,724	-	1,498	-	1,498
Derivatives		-	530	-	530	1	533	-	534
		-	2,254	-	2,254	1	2,031	-	2,032

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

There have been no transfers between Level 1 and Level 2 and no transfers into or out of Level 3 during the current or prior half-year.

Financial assets and liabilities not measured at fair value

The table below discloses a comparison of carrying value and fair value of financial assets and liabilities that are not measured at fair value after initial recognition, where their carrying value is not a reasonable approximation of fair value. The significant assumptions and estimates used in determining their fair values are consistent with those used in the financial year ended 30 June 2020.

		Carrying value	Fair value			
	Note	$M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 31 December 2020						
Financial assets						
Loans and advances	6	57,026	-	-	57,164	57,164
		57,026	-	-	57,164	57,164
Financial liabilities						
Deposits and short-term borrowings at amortised cost	8	45,570	-	45,627	-	45,627
Securitisation liabilities	9	2,590	-	2,572	-	2,572
Long-term borrowings	9	9,720	-	9,938	-	9,938
Subordinated notes		672	-	663	-	663
		58,552	-	58,800	-	58,800
As at 30 June 2020						
Financial assets						
Loans and advances	6	57,723	-	-	57,909	57,909
		57,723	-	-	57,909	57,909
Financial liabilities						
Deposits and short-term borrowings at amortised cost	8	45,026	-	45,095	-	45,095
Securitisation liabilities	9	2,945	-	2,924	-	2,924
Long-term borrowings	9	10,607	-	10,757	-	10,757
Subordinated notes		672	-	650	-	650
		59,250	-	59,426	-	59,426

13. Related parties

Arrangements for related parties continue to be in place as disclosed in the Group's consolidated financial report for the financial year ended 30 June 2020.

14. Contingent liabilities

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 remains uncertain at this time and as such have not been provided for.

Regulatory and internal reviews

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

In recent periods, a number of regulators including ASIC, APRA, Australian Competition and Consumer Commission (ACCC), Australian Transaction Reports and Analysis Centre (AUSTRAC) and the Australian Taxation Office (ATO) 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, some of which required resubmissions of prudential returns and unauthorised disclosure of loan documentation.

The Group is currently subject to ASIC's industry wide Close and Continuous Monitoring Program, which includes providing documents and data to ASIC and interviews with key Group staff members. The focus of the review relates to Internal Dispute Resolution and Breach and Incident Management processes.

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, the Company now considers should have been reported as International Funds Transfer Instructions. The Company understands this is a known industry issue. The Company has suspended the receipt of these payments through the card scheme platform whilst it establishes a reporting framework for this transaction type, which is expected in February 2021. The Company has kept AUSTRAC apprised of all corrective activities.

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

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

Customer complaints

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

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

Royal Commission

The 2019 report of the 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, the amount has been provisioned.

Customer remediation

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

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

Tax

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

Other

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 up to an amount equal to the net current liabilities of SMAC at 30 June 2020 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 position 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.

15. Subsequent events

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

Directors' declaration

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

1) The consolidated interim financial statements and notes set out on pages 5 to 20, are in accordance with the *Corporations Act 2001*, including:

   a. giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

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

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

Signed in accordance with a resolution of the directors:

CHRISTINE MCLOUGHLIN	STEVE JOHNSTON
Chairman of the Board	Group Chief Executive Officer and Managing Director

9 February 2021

KPMG

Independent Auditor's Review Report

To the shareholder of Suncorp-Metway Limited

Conclusion

We have reviewed the accompanying ***Consolidated Interim Financial Report*** of Suncorp-Metway Limited.

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

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Consolidated Interim Financial Report*** comprises:

- Consolidated interim statement of financial position as at 31 December 2020;
- Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date;
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' declaration.

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

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of 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 (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the Directors for the Consolidated Interim Financial Report

The Directors of the Group are responsible for:

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

Auditor's Responsibilities for the Review of the Consolidated Interim Financial Report

Our responsibility is to express a conclusion on the Consolidated Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Consolidated Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

KPMG

KPMG

Scott Guse

Scott Guse
Partner
Brisbane
9 February 2021