Suncorp-Metway Limited and subsidiaries

ABN 66 010 831 722

Consolidated interim financial report

for the half-year ended 31 December 2014

Contents **Page**

One Company Many Brands

The directors present their report together with the consolidated interim financial report of Suncorp-Metway Limited (the **Company**) and its subsidiaries for the half-year ended 31 December 2014 and the review report thereon.

Directors

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

Non-executive

Dr Zygmunt E Switkowski AO (Chairman)	Director since 2005
Ilana R Atlas	Resigned 20 August 2014
William J Bartlett	Director since 2003
Michael A Cameron	Director since 2012
Audette E Exel AO	Director since 2012
Ewoud J Kulk	Director since 2007
Dr Douglas F McTaggart	Director since 2012
Geoffrey T Ricketts CNZM	Director since 2007

Executive

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

Dividend and equity transactions

A 2014 final dividend on ordinary shares of $56 million (21 cents per share) was paid on 29 September 2014. The Company paid the following dividends on capital notes to Suncorp Group Limited during the period:

- $6 million (130 cents per note) on 17 September 2014
- $6 million (127 cents per note) on 17 December 2014.

Subsequent to 31 December 2014, a 2015 interim ordinary dividend of up to $165 million (63 cents per share) and $6 million (128 cents per note) dividend on capital notes for the quarter ending 16 March 2015 have been declared by directors.

In conjunction with the declaration of the interim ordinary dividend, on 9 February 2015 the directors approved the issue of ordinary shares to a value of up to $82.5 million to be issued on or before 28 February 2015.

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

Review of operations

Overview of the Group

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

The Group recorded a net profit after tax attributable to owners of the Company of $176 million for the half-year ended 31 December 2014, compared to $105 million for the corresponding prior period.

Review of operations (continued)

Financial position and capital structure

The Group has net assets of $3,633 million (June 2014: $3,506 million). The increase in net assets of $127 million comprises the total comprehensive income for the half-year of $195 million less a $56 million ordinary dividend paid and $12 million dividends paid to capital note holders.

During the period, the Group's capital adequacy ratio increased to 13.40% (June 2014: 13.14%), and the common equity tier 1 ratio to 8.81% (June 2014: 8.53%), as the favourable impact of current year earnings was only partially offset by dividends paid and an increase in residential mortgage exposures. The Group remains well capitalised and in excess of the minimum regulatory requirement. The Basel III APS 330 capital disclosures are made available at the regulatory disclosures section of **www.suncorpgroup.com.au/investors**.

Review of principal businesses

The profit after tax of the Group was $176 million for the half-year ended 31 December 2014 (December 2013: $105 million). The result was supported by a 20.5% increase in net operating income and improved credit quality across all portfolios.

The Group has established a stronger balance sheet over the past twelve months. Total loans, advances and other receivables reached $50.3 billion at 31 December 2014, an increase of 0.7% since 30 June 2014. This period of lower growth provided the opportunity to focus on balance sheet quality, strengthen the capital position and improve the Net Interest Margin (**NIM**). The Group has taken a considered approach to lending growth in a low interest rate environment.

The Group's NIM improved 8 bps over the six months to 1.86% to sit above the target operating range of 1.75% to 1.85%. The NIM benefited from moderation of term deposit pricing and improvements in funding composition as growth in lower cost retail transaction accounts reached 14.0%. Retail deposits remain a core source of funding, with a deposit to loan ratio of 66.1%. An 'A+/A1' credit rating and access to a broad range of wholesale funding markets enables the Group's diversified funding capability.

Net interest income grew 12.4% to $553 million as a result of the improvement in the NIM. Other operating income of $64 million included a one-off recovery of $18.5 million pre-tax.

Operating expenses of $322 million (December 2013: $305 million) increased as a result of investing heavily in frontline capability, enhanced risk management processes and improved customer experience through the delivery of Project Ignite and the Basel II Advanced Accreditation programs.

Gross non-performing loans reduced 15.0% since 30 June 2014 to $656 million. Gross impaired assets decreased 21.3% to $262 million, representing 0.52% of gross loans, advances and other receivables. Impairment losses on loans, advances and other receivables were $43 million for the half-year (December 2013: $45 million). Provision coverage has increased and the Group continues to hold appropriate provisioning for stress across the agribusiness segment and will retain the drought provision raised in June 2014.

Events subsequent to reporting date

In conjunction with the declaration of the interim ordinary dividend, on 9 February 2015 the directors approved the issue of ordinary shares to a value of up to $82.5 million to be issued on or before 28 February 2015.

Other than stated above, there has not arisen in the interval between 31 December 2014 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

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 2014.

Rounding of amounts

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

Signed in accordance with a resolution of the directors.

Dr Zygmunt E Switkowski AO
Chairman

Patrick J R Snowball
Managing Director and Group CEO

11 February 2015

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

To: the directors of Suncorp-Metway Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2014 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

Jillian B Richards
Partner

Brisbane
11 February 2015

Consolidated interim statement of comprehensive income

for the half-year ended 31 December 2014

CONSOLIDATED	Note	Dec 2014	Dec 2013
		$m	$m
Interest income	7.1	**1,461**	1,515
Interest expense	7.1	**(908)**	(1,023)
Net interest income	7.1	**553**	492
Other operating income	7.2	**64**	20
Total net operating income		**617**	512
Operating expenses		**(322)**	(305)
Losses on loans and advances	11.2, 11.3	**(43)**	(58)
Profit before income tax		**252**	149
Income tax expense	8	**(76)**	(44)
Profit for the period		**176**	105
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges	16	**23**	32
Net change in fair value of available-for-sale financial assets	16	**3**	12
Income tax expense	16	**(7)**	(15)
Total other comprehensive income		**19**	29
Total comprehensive income for the period		**195**	134
Profit for the period attributable to owners of the Company		**176**	105
Total comprehensive income for the period attributable to owners of the Company		**195**	134

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 2014

CONSOLIDATED	Note	Dec 2014	Jun 2014	Dec 2013
		$m	$m	$m
Assets				
Cash and cash equivalents		**521**	463	810
Receivables due from other banks		**566**	927	790
Trading securities		**2,298**	1,593	2,129
Derivatives		**710**	334	451
Investment securities	9	**6,634**	6,500	6,652
Loans, advances and other receivables	10	**50,280**	49,927	49,435
Deferred tax assets		**95**	98	88
Other assets		**223**	194	213
Goodwill and intangible assets		**26**	26	26
Total assets		**61,353**	60,062	60,594
Liabilities				
Payables due to other banks		**314**	81	186
Deposits and short-term borrowings		**45,104**	44,154	44,597
Derivatives		**424**	525	494
Payables and other liabilities		**537**	617	474
Securitisation liabilities	13	**2,872**	3,598	4,267
Debt issues	14	**7,727**	6,839	6,433
Total liabilities excluding loan capital		**56,978**	55,814	56,451
Loan capital				
Subordinated notes		**742**	742	840
Total loan capital		**742**	742	840
Total liabilities		**57,720**	56,556	57,291
Net assets		**3,633**	3,506	3,303
Equity				
Share capital	15	**2,565**	2,565	2,492
Capital notes		**450**	450	450
Reserves	16	**(227)**	(239)	(283)
Retained profits		**845**	730	644
Total equity		**3,633**	3,506	3,303

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 2014

CONSOLIDATED	Note	Share capital $m	Capital notes $m	Reserves $m	Retained profits $m	Total equity $m
Balance as at 1 July 2014		**2,565**	**450**	**(239)**	**730**	**3,506**
Profit after tax for the period		-	-	-	176	176
Total other comprehensive income		-	-	19	-	19
Total comprehensive income		-	-	19	176	195
Transactions with owners, recorded directly in equity						
Dividends paid	5	-	-	-	(68)	(68)
Transfers		-	-	(7)	7	-
Balance as at 31 December 2014		**2,565**	**450**	**(227)**	**845**	**3,633**
Balance as at 1 July 2013		2,452	450	(306)	545	3,141
Profit after tax for the period		-	-	-	105	105
Total other comprehensive income		-	-	29	-	29
Total comprehensive income		-	-	29	105	134
Transactions with owners, recorded directly in equity						
Issue of ordinary shares	15	40	-	-	-	40
Dividends paid	5	-	-	-	(12)	(12)
Transfers		-	-	(6)	6	-
Balance as at 31 December 2013		2,492	450	(283)	644	3,303

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 2014

CONSOLIDATED	Dec 2014	Dec 2013
	$m	$m
Cash flows from operating activities		
Interest received	**1,455**	1,509
Interest paid	**(959)**	(1,137)
Other operating income received	**118**	100
Operating expenses and fees and commissions paid	**(395)**	(387)
Income tax paid	**(64)**	(6)
Net decrease (increase) in operating assets		
Trading securities	**(702)**	1,325
Loans, advances and other receivables and other assets	**(414)**	(1,052)
Net increase in operating liabilities		
Deposits and short-term borrowings and other liabilities	**923**	584
Net cash (used in) from operating activities	**(38)**	936
Cash flows from investing activities		
Net (payments for) proceeds from investment securities	**(151)**	(5)
Net cash used in investing activities	**(151)**	(5)
Cash flows from financing activities		
Net decrease in borrowings	**(279)**	(1,667)
Dividends paid on ordinary shares	**(56)**	-
Proceeds from issue of ordinary shares	**-**	40
Payments for preference share redemption	**-**	(30)
Dividends paid on capital notes	**(12)**	(12)
Net cash used in financing activities	**(347)**	(1,669)
Net decrease in cash and cash equivalents	**(536)**	(738)
Cash and cash equivalents at the beginning of the period	**1,309**	2,152
Cash and cash equivalents at the end of the period	**773**	1,414
Cash and cash equivalents at the end of the period comprises:		
Cash and cash equivalents	**521**	810
Receivables due from other banks[1]	**566**	790
Payables due to other banks[2]	**(314)**	(186)
	773	1,414

Notes

1. Includes cash pledged as collateral to support derivative liability positions $84 million (December 2013: $288 million) in accordance with standard International Swaps and Derivatives Association (ISDA) agreements.
2. Includes cash received as collateral to support derivative asset positions of $287 million (December 2013: $131 million) in accordance with standard ISDA agreements.

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

1. Reporting entity

Suncorp-Metway Limited (the **Company**) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the half-year ended 31 December 2014 comprises the Company and its subsidiaries (the **Group**). The Company's parent entity is SBGH Limited. The ultimate parent entity is Suncorp Group Limited. The Suncorp Group comprises Suncorp Group Limited and its subsidiaries.

The Group is a for-profit entity and conducts a banking business in Australia. Operating segment information is presented in note 6. Its consolidated annual financial report for the financial year ended 30 June 2014 is available upon request from the Company's registered office at Level 28, 266 George Street, Brisbane, Qld 4000 or at **www.suncorpgroup.com.au**.

2. Basis of preparation

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

The consolidated interim financial report does not include all of the information required for a full consolidated annual financial report, and should be read in conjunction with the consolidated financial report of the Group for the financial year ended 30 June 2014.

The consolidated interim financial report was approved by the Board of Directors on 11 February 2015.

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

3. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report for the financial year ended 30 June 2014.

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

4. Use of estimates and judgements

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial report as at and for the financial year ended 30 June 2014.

5. Dividends

CONSOLIDATED	Dec 2014		Dec 2013	
	Cents per share / note	$m	Cents per share / note	$m
Dividends on ordinary shares				
2014 final dividend	**21**	**56**	-	-
Dividends on capital notes				
September quarter	**130**	**6**	131	6
December quarter	**127**	**6**	126	6
		12		12
Total dividends recognised in equity		**68**		12
Dividends declared since balance date and not recognised in the consolidated interim statement of financial position				
Dividends on ordinary shares				
2015 interim dividend	**63**	**165**	-	-
Dividends on capital notes				
March quarter	**128**	**6**	125	5
		171		5

6. 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 2014.

As the Group operates in only one segment, all results of the Group, as presented in this consolidated interim financial statements, relate to the Banking segment for the current and prior periods. All revenue of the Group is from external customers.

7. Net operating income

7.1 Net interest income

CONSOLIDATED	Dec 2014	Dec 2013
	$m	$m
Interest income		
Cash and cash equivalents	**11**	6
Receivables due from other banks	**2**	6
Trading securities	**24**	39
Investment securities	**127**	128
Loans, advances and other receivables	**1,297**	1,336
Total interest income	**1,461**	1,515
Interest expense		
Deposits and short-term borrowings	**(642)**	(719)
Derivatives	**(51)**	(57)
Securitisation liabilities	**(65)**	(89)
Debt issues	**(130)**	(137)
Subordinated notes	**(20)**	(21)
Total interest expense	**(908)**	(1,023)
Net interest income	**553**	492

7.2 Other operating income

CONSOLIDATED	Dec 2014	Dec 2013
	$m	$m
Fee and commission income	**100**	98
Fee and commission expense	**(65)**	(61)
Net fee and commission income	**35**	37
Net profits (losses) on derivative and other financial instruments:		
Realised	**7**	(1)
Unrealised	**3**	(18)
Other income[1]	**19**	2
Other operating income	**64**	20

Note

1. Other income for the half-year ended 31 December 2014 includes a one-off recovery of $18.5 million in settlement of a claim.

8. Income tax expense

The Group's consolidated effective tax rate for the half-year ended 31 December 2014 was 30.1% (for the half-year ended 31 December 2013: 29.8%).

9. Investment securities

CONSOLIDATED	Dec 2014	Jun 2014	Dec 2013
	$m	$m	$m
Available-for-sale financial assets			
Interest-bearing securities	**2,735**	2,542	2,572
	2,735	2,542	2,572
Held-to-maturity investments			
Interest-bearing securities	**3,899**	3,958	4,080
	3,899	3,958	4,080
Total investment securities	**6,634**	6,500	6,652

10. Loans, advances and other receivables

CONSOLIDATED	Note	Dec 2014	Jun 2014	Dec 2013
		$m	$m	$m
Financial assets at amortised cost				
Housing loans[1, 2]		**39,770**	39,001	38,284
Consumer loans		**403**	431	452
Business loans		**10,127**	10,524	10,448
Other lending		**44**	51	100
Loans to related parties		**169**	146	361
		50,513	50,153	49,645
Provision for impairment	11.1	**(233)**	(226)	(210)
Total loans, advances and other receivables		**50,280**	49,927	49,435

Notes

1. Includes externally securitised housing loan balances of $3,040 million (June 2014: $3,756 million) which has an equivalent associated securitised liability.
2. Includes housing loan balances of $3,578 million (June 2014: $2,705 million) which comprise a covered pool of assets which secure the Group's covered bond issuances.

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

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

CONSOLIDATED	Dec 2014	Dec 2013
	$m	$m
Collective provision		
Balance at the beginning of the period	**120**	102
Charge (credit) against impairment losses	**9**	(5)
Balance at the end of the period	**129**	97
Specific provision		
Balance at the beginning of the period	**106**	198
Charge against impairment losses	**32**	48
Impaired assets written off	**(29)**	(124)
Unwind of discount	**(5)**	(9)
Balance at the end of the period	**104**	113
Total provision for impairment	**233**	210

11.2 Impairment expense on loans, advances and other receivables

CONSOLIDATED	Dec 2014	Dec 2013
	$m	$m
Increase (decrease) in collective provision for impairment	**9**	(5)
Increase in specific provision for impairment	**32**	48
Bad debts written off	**2**	7
Bad debts recovered	**-**	(5)
Total impairment expense on loans, advances and other receivables	**43**	45

11.3 Losses on disposal of loans, advances and other receivables

CONSOLIDATED	Dec 2014	Dec 2013
	$m	$m
Losses on disposal of loans and advances	**-**	13
Total losses on disposal of loans, advances and other receivables	**-**	13

12. Short-term offshore debt securities

CONSOLIDATED	Dec 2014	Dec 2013
	$m	$m
Balance at the beginning of the period	**2,711**	3,999
Proceeds from issues	**3,850**	3,575
Repayments	**(3,330)**	(4,057)
Foreign exchange translation and fair value movements	**234**	169
Balance at the end of the period	**3,465**	3,686

Short-term offshore debt securities are disclosed within the interim statement of financial position category of ‘Deposits and short-term borrowings’.

13. Securitisation liabilities

CONSOLIDATED	Dec 2014	Dec 2013
	$m	$m
Balance at the beginning of the period	**3,598**	4,802
Transaction costs amortised (incurred)	**2**	2
Repayments	**(749)**	(573)
Foreign exchange translation movements	**21**	36
Balance at the end of the period	**2,872**	4,267

14. Debt issues

CONSOLIDATED	Dec 2014	Dec 2013
	$m	$m
Balance at the beginning of the period	**6,839**	7,313
Proceeds from issues	**2,063**	401
Transaction costs (incurred) amortised	**(1)**	1
Net proceeds	**2,062**	402
Repayments	**(1,378)**	(1,368)
Foreign exchange translation movements	**204**	86
Balance at the end of the period	**7,727**	6,433

15. Share capital

CONSOLIDATED	Dec 2014	Dec 2013
	$m	$m
Issued capital		
Balance at the beginning of the period	**2,565**	2,452
Shares issued to parent entity	**-**	40
Balance at the end of the period	**2,565**	2,492

15.1 Number of ordinary shares on issue

CONSOLIDATED	Dec 2014	Dec 2013
	Number of shares	Number of shares
Balance at the beginning of the period	**263,220,984**	251,934,572
Issued to parent entity	**-**	4,000,000
Balance at the end of the period	**263,220,984**	255,934,572

On 30 September 2013, 4,000,000 new ordinary shares were issued at an issue price of $10 per share to the parent entity, SBGH Limited.

16. Reserves

CONSOLIDATED	Equity reserve for credit losses $m	Hedging reserve $m	Assets available-for-sale reserve $m	Common control reserve $m	Total $m
Balance as at 1 July 2014	**151**	**(30)**	**12**	**(372)**	**(239)**
Transfer to retained profits	**(7)**	**-**	**-**	**-**	**(7)**
Amount recognised in equity	**-**	**24**	**15**	**-**	**39**
Amount transferred from equity to profit or loss	**-**	**(1)**	**(12)**	**-**	**(13)**
Income tax	**-**	**(6)**	**(1)**	**-**	**(7)**
Balance as at 31 December 2014	**144**	**(13)**	**14**	**(372)**	**(227)**
Balance as at 1 July 2013	131	(61)	(4)	(372)	(306)
Transfer to retained profits	(6)	-	-	-	(6)
Amount recognised in equity	-	30	5	-	35
Amount transferred from equity to profit or loss	-	2	7	-	9
Income tax	-	(11)	(4)	-	(15)
Balance as at 31 December 2013	125	(40)	4	(372)	(283)

17. Fair value of financial instruments

17.1 Comparison of fair value to carrying amounts

The following financial assets and liabilities are recognised and measured at fair value and therefore their carrying value equates to their fair value:

- Trading securities
- Available-for-sale financial assets
- Certain short-term offshore borrowings designated as financial liabilities at fair value through profit or loss
- Derivatives.

The basis for determining their fair values has not changed since 30 June 2014 and is described in note 27.2 to the Group's consolidated financial report for the financial year ended 30 June 2014.

The table below discloses a comparison of carrying value and fair value of financial assets and liabilities that are not recognised and measured at fair value, where their carrying value is not a reasonable approximation of fair value. Significant assumptions and estimates used in determining their fair values have not changed since 30 June 2014 and are described in note 27.1 to the Group's consolidated financial report for the year ended 30 June 2014.

CONSOLIDATED	Dec 2014		Jun 2014		Dec 2013	
	Carrying value $m	Fair value $m	Carrying value $m	Fair value $m	Carrying value $m	Fair value $m
Financial assets						
Loans, advances and other receivables	**50,280**	**50,633**	49,927	50,288	49,435	49,493
Held-to-maturity investments	**3,899**	**3,953**	3,958	3,995	4,080	4,124
Financial liabilities						
Deposits and short-term borrowings[1]	**41,639**	**41,700**	41,443	41,211	40,911	41,025
Securitisation liabilities	**2,872**	**2,872**	3,598	3,598	4,267	4,267
Debt issues	**7,727**	**7,811**	6,839	6,796	6,433	6,488
Subordinated notes	**742**	**725**	742	726	840	840

Note

1. Excludes short-term offshore debt securities designated as financial liabilities at fair value through profit or loss.

17.2 Fair value hierarchy

Financial assets and liabilities that are recognised and measured at fair value are categorised by a hierarchy which identifies the most significant input used in the valuation methodology:

- Level 1 – derived from quoted prices (unadjusted) in active markets for identical financial instruments that the Group can access at 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
- Level 3 – fair value measurement is not based on observable market data.

CONSOLIDATED	Level 1	Level 2	Level 3	Total
	$m	$m	$m	$m
As at 31 December 2014				
Financial assets				
Trading securities	**-**	**2,298**	**-**	**2,298**
Investment securities[1]	**-**	**2,735**	**-**	**2,735**
Derivatives	**1**	**697**	**12**	**710**
	1	**5,730**	**12**	**5,743**
Financial liabilities				
Deposits and short-term borrowings[2]	**-**	**3,465**	**-**	**3,465**
Derivatives	**-**	**399**	**25**	**424**
	-	**3,864**	**25**	**3,889**
As at 30 June 2014				
Financial assets				
Trading securities	-	1,593	-	1,593
Investment securities[1]	-	2,542	-	2,542
Derivatives	1	299	34	334
	1	4,434	34	4,469
Financial liabilities				
Deposits and short-term borrowings[2]	-	2,711	-	2,711
Derivatives	-	455	70	525
	-	3,166	70	3,236
As at 31 December 2013				
Financial assets				
Trading securities	-	2,129	-	2,129
Investment securities[1]	-	2,572	-	2,572
Derivatives	1	426	24	451
	1	5,127	24	5,152
Financial liabilities				
Deposits and short-term borrowings[2]	-	3,686	-	3,686
Derivatives	-	450	44	494
	-	4,136	44	4,180

Notes

1. Includes only available-for-sale financial assets.
2. Includes only short-term offshore debt securities designated as financial liabilities at fair value through profit or loss.

There have been no significant transfers between Level 1 and Level 2 during the half-years ended 31 December 2014 and 31 December 2013.

17. Fair value of financial instruments (continued)

17.2 Fair value hierarchy (continued)

Level 3 derivatives relate to long-dated interest rate swaps and cross currency swaps in relation to the Apollo securitisation trusts where a significant input is the amortisation profile of the mortgage portfolio. The valuation methodology for derivative financial instruments classified within Level 3 of the fair value hierarchy is based on market data using observable quoted rates for actively traded tenor points. Where interpolation is used to value an instrument for the correct time periods, observable inputs such as the bank bill swap rate (**BBSW**) yield curves and swap curve rates are used.

The Group's exposure to Level 3 financial instruments is restricted to an insignificant component of the portfolios to which they belong, such that any change in the assumptions used to value the instruments to a reasonably possible alternative do not have a material effect on the portfolio balance or the Group's results.

The following table discloses the movements in financial instruments classified as Level 3 in the fair value hierarchy:

CONSOLIDATED	Dec-14		Dec-13	
	Asset Derivatives $m	Liability Derivatives $m	Asset Derivatives $m	Liability Derivatives $m
Balance at the beginning of the period period[1]:	**34**	**(70)**	41	(101)
Change in fair value recognised in other operating income[1]	**5**	**5**	(6)	43
Change in fair value recognised in equity	**-**	**-**	-	(2)
Transfer out to Level 2	**-**	**-**	(11)	16
Settlements	**(27)**	**40**	-	-
Balance at the end of the period	**12**	**(25)**	24	(44)

Note

1. All gains/losses included in profit or loss relate to assets and liabilities held at the end of the period (i.e. unrealised).

18. Changes in the composition of the Group

The Group did not acquire nor dispose of any material subsidiaries or interests in joint arrangements, or associates during the current or prior interim reporting periods.

19. Related parties

Arrangements for related parties continue to be in place as disclosed in the consolidated financial report for the financial year ended 30 June 2014.

20. Contingent assets and liabilities

There have been no material changes in contingent assets or contingent liabilities since 30 June 2014.

21. Subsequent events

In conjunction with the declaration of the interim ordinary dividend, on 9 February 2015 the directors approved the issue of ordinary shares to a value of up to $82.5 million to be issued on or before 28 February 2015.

Other than stated above, there has not arisen in the interval between 31 December 2014 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

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

1. The consolidated interim financial statements and notes set out on pages 4 to 16, are in accordance with the *Corporations Act 2001*, including:
   a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
   b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

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

Signed in accordance with a resolution of the directors:

Dr Zygmunt E Switkowski AO	**Patrick J R Snowball**
Chairman	Managing Director and Group CEO

11 February 2015

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

We have reviewed the accompanying interim financial report of Suncorp-Metway Limited (the **Company**), which comprises the consolidated interim statement of financial position as at 31 December 2014, 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 21 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Suncorp-Metway Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

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

KPMG

Jillian B Richards
Partner

Brisbane

11 February 2015