Suncorp Covered Bond Trust

ABN 14 274 852 576

Financial report
for the financial year ended 30 June 2017

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	2017	2016
	$	$
Revenue		
Interest income on secured loans	**122,998,947**	123,641,559
Interest income on cash and cash equivalents	**2,424,140**	3,887,579
Other income on secured loan	**4,212,981**	3,555,446
Total revenue	**129,636,068**	131,084,584
Expenses		
Interest expense	**(113,080,553)**	(114,676,263)
Cash manager and Administrative agent fee	**(2,481,560)**	(2,228,757)
Covered bond guarantee fee	**(224,043)**	(202,255)
Total expenses	**(115,786,156)**	(117,107,275)
Profit before distribution expense	**13,849,912**	13,977,309
Servicing fee	**(7,090,172)**	(6,367,876)
Residual income rights	**(6,759,740)**	(7,609,433)
Total distribution expense	**(13,849,912)**	(13,977,309)
Profit before tax	**-**	-
Income tax expense	**-**	-
Profit for the financial year attributable to the unitholders of the Trust	**-**	-
Total comprehensive income for the financial year attributable to the unitholders of the Trust	**-**	-

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

	Note	2017	2016
		$	$
Assets			
Cash and cash equivalents		**1,477,390**	62,208,127
Secured loan income receivable		**5,082,090**	6,803,443
Related party receivable		**91,443,220**	127,552,202
GST receivable		**130,358**	156,273
Secured loan	3	**2,925,710,345**	3,837,957,650
Total assets		**3,023,843,403**	4,034,677,695
Liabilities			
Payables	4	**1,034,526**	1,062,065
Interest payable		**7,693,151**	9,099,863
Distribution payable		**15,115,706**	24,522,990
Interest-bearing liabilities	5	**3,000,000,000**	3,999,992,757
Total liabilities excluding outstanding units		**3,023,843,383**	4,034,677,675
Units on issue	6	**20**	20
Total liabilities		**3,023,843,403**	4,034,677,695
Net assets		**-**	-
Equity			
Unitholders funds		**-**	-

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

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

	Note	2017	2016
		$	$
Cash flows from operating activities			
Secured loan interest income receipts		**149,943,510**	136,070,098
Other operating income received		**7,488,144**	8,339,009
Interest paid on interest-bearing liabilities		**(142,140,590)**	(129,774,927)
Distribution paid		**(11,784,473)**	(11,582,450)
Fees paid		**(3,506,591)**	(3,051,730)
Cash advance under secured loan		**589,269,263**	(864,100,848)
Net cash used in operating activities	7	**589,269,263**	(864,100,848)
Cash flows from financing activities			
Repayment of interest bearing liabilities		**(1,100,000,000)**	-
Cash received from funding of interest bearing liabilities		**450,000,000**	774,992,757
Net cash from financing activities		**(650,000,000)**	774,992,757
Net (decrease) increase in cash and cash equivalents		**(60,730,737)**	(89,108,091)
Cash and cash equivalents at the beginning of the financial year		**62,208,127**	151,316,218
Cash and cash equivalents at end of the financial year		**1,477,390**	62,208,127

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

1. Reporting entity

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

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

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

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

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

The financial report was authorised for issue by the directors of SME Management Pty Limited (the **Directors**) on 10 August 2017. The registered office of the Manager is at Level 28, 266 George Street, Brisbane QLD 4000.

2. Basis of preparation

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

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

Significant accounting policies applied in the preparation of the financial statements are set out in note 9. There have been no significant changes to accounting policies during the financial year. None of the new accounting standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2016 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

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

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

2.1. Use of estimates and judgments

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

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

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

3. Secured loan

	2017 $	2016 $
Loans, advances and other receivables		
Residential mortgages	**2,925,710,345**	3,837,957,650
Total secured loan	**2,925,710,345**	3,837,957,650

The secured loan (also refer note 9.6) is secured by an equitable interest in the cover pool assets held by SML, which consists of loans, advances and other receivables. The balance represents the outstanding balance of the mortgage loans in the cover pool.

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

The potential for impairment of the secured loan reflects the potential impairment of the underlying cover pool assets managed by SML. Given the credit quality of the mortgage loans including the current level of collateral held against the cover pool, no assets are deemed impaired for the Trust as at balance date. No allowance for impairment is currently deemed necessary for the Trust (2016: $nil). Interest on all loans continues to be taken to income, including those which are past due but not impaired.

3.1 Impairment of mortgage loans

Impairment of a mortgage loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the mortgage loan agreement. The Trust uses the following method for calculating impairment:

(i) Specific impairment provisions

Impairment losses on individually assessed mortgage loans are determined on a case-by-case basis. If there is objective evidence that an individual mortgage loan is impaired then a specific provision for impairment is raised. The amount of the specific provision is based on the carrying amount of the mortgage loan, including the security held against the mortgage loan and the present value of expected future cash flows including amounts expected to be received from mortgage insurance. Any subsequent write-offs are then made against the specific provision for impairment.

(ii) Collective impairment provision

Where no evidence of impairment has been identified for mortgage loans, these mortgages loans are grouped together on the basis of similar credit characteristics for the purpose of calculating a collective impairment loss. Collective impairment provisions are based on historical loss experience adjusted for current observable data and mortgage insurance. The amount required to bring the collective provision for impairment to its required level is charged to the statement of comprehensive income.

4. Payables

	2017 $	2016 $
Servicer's fee	**542,199**	711,968
Cash manager fee	**135,550**	177,992
Administrative agent fee	**54,220**	71,197
Unapplied funds	**293,516**	93,494
Covered bond guarantee fee	**9,041**	7,414
Total payables	**1,034,526**	1,062,065

5. Interest bearing liabilities

	2017 $	2016 $
Demand loan	**179,963,568**	435,405,491
Guarantee loan	**2,820,036,432**	3,564,587,266
Interest-bearing liabilities	**3,000,000,000**	3,999,992,757

6. Units on issue

	2017		2016	
	No. of units	$	No. of units	$
Residual income unit	**1**	**10**	1	10
Residual capital unit	**1**	**10**	1	10
Total units on issue	**2**	**20**	**2**	**20**

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

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

7. Reconciliation of cash flows from operating activities

	2017 $	2016 $
Net profit for the financial year	-	-
Change in assets and liabilities		
(Increase) decrease in secured loan	**912,247,305**	(829,553,645)
(Increase) decrease in trade and other receivables	**37,856,250**	(35,965,647)
Increase (decrease) in all payables	**(10,841,535)**	1,418,444
Net cash used in operating activities	**939,262,020**	(864,100,848)

8. Auditor's remuneration

	2017 $	2016 $
KPMG Australia		
Audit of the financial report	**30,000**	30,000
Total auditor's remuneration	**30,000**	30,000

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

9. Significant accounting policies

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

The financial statements have been prepared in accordance with the disclosure requirements of AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards*, AASB 1054 *Australian Additional Disclosures* and AASB 1057 *Application of Australian Accounting Standards*.

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

9.1. Revenue and expense recognition

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

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

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

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

9.2. Income tax

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

9.3. Goods and services tax (GST)

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

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

9.4. Cash and cash equivalents

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

9.5. Non-derivative financial assets

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

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

9.6. Secured loan

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

The sale of the cover pool assets from SML to the Trust does not qualify for derecognition in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* because the sale is deemed to have failed to transfer substantially all the risks and rewards of ownership. Consequently, SML continues to recognise the covered pool assets and recognise a corresponding financial liability to the Trust on its statement of financial position. In turn, the Trust recognises a financial asset due from SML, being the secured loan, and a corresponding financial liability to SML under the Intercompany Loan Agreement.

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

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

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

9.7. Derivative financial instruments

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

As a consequence of SML's sale of cover pool assets to the Trust not qualifying for derecognition (refer note 9.6), AASB 139 also denies the Trust from separately recognising derivatives that cause the failure for derecognition. Therefore, the Trust has not separately recognised the interest rate swap in the statement of financial position and no gains or losses have been recognised in profit or loss.

9.8. Impairment of financial assets

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

9.9. Non-derivative financial liabilities

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

9.10. Units issued

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

9.11. New accounting standards and interpretations not yet adopted

AASB 9 *Financial Instruments* was issued and introduces changes in the classification and measurement of financial assets and financial liabilities, impairment of financial assets and new rules for hedge accounting. This standard becomes mandatory for the Trust's 30 June 2019 financial statements. The potential effects on adoption of the standard are currently being assessed. It is available for early adoption but has not been applied by the Trust in this financial report.

10. Subsequent events

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

The financial statements for the financial year ended 30 June 2017 have been prepared by the Trust Manager, SME Management Pty Limited, as required by the Trust Deed.

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

A review of the operations of the Trust and the results of these operations for the financial year ended 30 June 2017 is contained in the Manager's Declaration.

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

(a) the Trust has been conducted in accordance with the Trust Deed; and

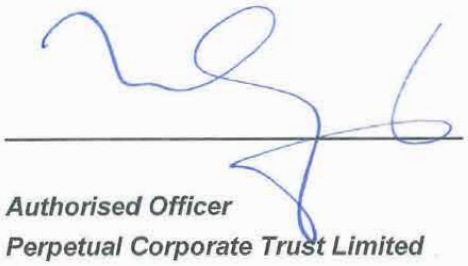
(b) the financial report has been appropriately prepared and contains all relevant and required disclosures.

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

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

Signed for and on behalf of

Perpetual Corporate Trust Limited



Authorised Officer
Perpetual Corporate Trust Limited

Sydney

10 August 2017

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Review of operations

The Trust's net profit from operating activities before distribution expense for the financial year ended 30 June 2017 is $13,849,912 (2016: $13,977,309).

Declaration

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

(a) the financial statements and notes, set out on pages 2 to 10, present fairly, in all material respects, the financial position of the Trust as of 30 June 2017 and its financial performance and its cash flows for the period then ended in accordance with the accounting policies described in note 9 to the financial statements;

(b) the Trust has operated during the financial year ended 30 June 2017 in accordance with the provisions of the Trust Deed dated 10 May 2012; and

(c) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

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

Director ALANA BAILEY
SME Management Pty Limited

Brisbane

10 August 2017

KPMG

Independent Auditor's Report

To the Unitholders of Suncorp Covered Bond Trust

Opinion

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

In our opinion, the accompanying Financial Report presents fairly, in all material respects, the financial position of Suncorp Covered Bond Trust as of 30 June 2017, and its financial performance and its cash flows for the period then ended in accordance with the accounting policies described in notes 2 and 9 to the Financial Report.

The ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2017;
- Statement of comprehensive income and Statement of cash flows for the year then ended; and
- Notes including a summary of significant accounting policies.

Basis for opinion

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

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

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

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

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

The Financial Report has been prepared to assist the directors of the Manager and Administrative Agent, SME Management Pty Limited in meeting the requirements of the Trust Deed dated 10 May 2012 and in meeting the needs of the Unitholders.

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

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

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KPMG

Other Information

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

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

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

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

Responsibilities of the Manager for the Financial Report

The Manager and Administrative Agent is responsible for:

- the preparation and fair presentation of the Financial Report and have determined that the basis of preparation described in notes 2 and 9 to the Financial Report is appropriate to meet the requirements of the Trust Deed dated 10 May 2012 and is appropriate to meet the needs of the Unitholders;
- implementing necessary internal control to enable the preparation and fair presentation of a Financial Report that is free from material misstatement whether due to fraud or error; and
- assessing the Trust's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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 this Financial Report.

KPMG

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

KPMG

Jillian Richards
Partner
Brisbane
10 August 2017